Allied powers (1919-)

REPARATION COMMISSION.

XI.

OFFICIAL DOCUMENTS.

Report of the Agent-General for Reparation Payments

(November 30th, 1925).

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Table of Contents.

	Pages.
Introduction	5
I. The First Year of the Experts' Plan	6
II. The Administration of the Annuity	7
a. The constitution of the Annuity	7
(1) The provisions of the Plan	7
(2) The payment of the first Annuity	8
(3) Arrangements for the second Annuity	8
b. The distribution of the Annuity	10
(1) Basis of distribution	10
(2) Distribution of the first Annuity	11
(3) The use of the first Annuity by the creditor Powers	12
c. The management of the Annuity	15
(1) Regulation of programmes	15
(2) Settlement of provisional items	16
(3) Administrative organization	17
d. Arbitration proceedings	17
e. The German External Loan, 1924	19
III. The Transfer Committee	20
a. Transfers into foreign currencies	21
b. Regulation of deliveries in kind	21
(1) Status of deliveries under the Plan	22
(2) Progress of deliveries	23
(3) Administration of deliveries under the Plan	25
c. The Reparation Recovery Acts	27
d. Establishment and maintenance of accounts abroad	27
IV. The Work of the Commissioners and Trustees	28
a. The Commissioner of the Reichsbank	28
b. The Commissioner for the German Railways	28
c. The Commissioner of Controlled Revenues	30
d. The Trustee for the German Railway Bonds	30
e. The Trustee for the German Industrial Debentures	31
V. The German Budget	32
a. The budget of the Reich for the financial year 1924-25	32
(1) Receipts	32
(2) Expenditures	33
b. The budget of the Reich for the financial year 1925-26	36
c. General observations on the budget of the Reich	37
(1) The necessity of economy	38
(2) Payments to the States and Communes	39
(3) Government loans and investments	40
d. The budgets of the States and Communes	40
VI. The German Public Debt	42
a. Statement of the public debt of the Reich	43
b. Revaluation of paper mark loans of the Reich	45
c. Public debts of the States and Communes	46
VII. German Currency and Credit	50
a. The German currency	50
(1) Elements in the circulation	50

Pages.

(2) Growth of the circulation 52
(3) The Reichsbank's reserves 54
b. Credit conditions in Germany 55
(1) Foreign credits 56
(2) Public banks and credit 57
(3) Reichsbank credit 64
c. The volume of credit 65
(1) In the public banks 65
(2) In the private banks 68
d. Money and security markets 69

VIII. Germany's Foreign Trade 71
a. The trade balance 71
b. Factors affecting the trade balance 73
c. Detailed analysis of the movements of imports and exports 75
d. Other items in the German balance of payments 83
e. The meaning of the trade balance 84

IX. Progress of Readjustment in German Business and Industry .. 85
a. Reorganization of industry 86
b. Physical volume of production 87
(1) Coal and coke 87
(2) Iron and steel 89
(3) Potash 90
(4) Agriculture 90
c. Business activity 91
d. Transport 93
e. Unemployment 95
f. Commercial failures 97
g. Commodity prices 98

X. Conclusions 102

Exhibits.

I. Composition of German Annuity under the Experts' Plan.
II. Approximate Distribution of First Annuity, Showing Shares of the Respective Powers.
III. Approximate Distribution of Second Annuity, Showing Shares of the Respective Powers.
IV. Balance Sheet of the Agent General for Reparation Payments, as of August 31, 1925.
V. Statement of Receipts and Payments for the First Annuity Year (September 1, 1924, to August 31, 1925).
VI. Detailed Distribution among the Powers of Amounts Available for Expenditure during First Annuity Year.
VII. Analysis of Payments and Outstanding Liabilities for First Annuity Year, according to Category of Expenditure.
VIII. Summary of Personnel, Office for Reparation Payments, as of September 1, 1925.
IX. Statement of Condition of German External Loan, 1924, as of October 15, 1925.

Berlin, November 30, 1925.

To the Reparation Commission.

Sirs:

I have the honor to present herewith a Report, as Agent General for Reparation Payments, covering the first year of operations under the Plan of the First Committee of Experts.

I have previously presented to the Commission, under date of May 30, 1925, an interim Report covering the first eight months of operations under the Plan, and in that connection have outlined particularly what had been accomplished up to that time in the direction of balancing the German Budget and stabilizing the German currency. It is unnecessary in this Report to cover the same ground again, but now that a full year has passed under the Plan it is possible to get a clearer view not only of the results accomplished in respect to reparation payments, but also of the course which economic and financial conditions are taking in Germany. I propose at this time, therefore, to review briefly the administration of the Plan through the first year, and to outline the course of German readjustment up to this time, calling special attention to the developments which appear to be most significant

I. The first year of the Experts' Plan.

The first year of the Plan began on September 1, 1924, in conformity with the terms of the Agreement executed at London on August 30, 1924. The two months immediately following were principally occupied with the organization of the Plan in its various aspects, and with the arrangements for the flotation of the German External Loan. These developments the previous Report has already summarized. The Reichsbank was reconstituted, the German Railway Company was organized and the railway bonds issued, and the organization of the charge on German industry was carried through its first stages. At the same time, the preliminary administration of reparation receipts and payments for the first year was proceeding as contemplated by the London Agreement, and the permanent organization under the Plan was taking shape. By the end of October, 1924, the Reparation Commission was able to take its decisions to the effect that Germany on its part had fulfilled the conditions prerequisite to the inauguration of the Plan, and that the Allied Governments on their side had completed the restoration of the fiscal and economic unity of Germany within the meaning of the London Agreement. The transition period thus came to an end, and from October 31, 1924, the Experts' Plan may be considered as having been in full force and effect.

The operation of the Plan through the remainder of the year has continued in accordance with expectations. The two primary objects for which the Experts were appointed have been attained. The German budget has been balanced, with a considerable margin of safety, and the stability of the German currency has been fully maintained. In the field of reparation payments the practical results already achieved are encouraging. The first Annuity of 1,000 million gold marks has all been paid within the year, four-fifths out of the proceeds of the German External loan and one-fifth by the German Railway Company. The creditor Powers, on their part, are receiving reparation payments and deliveries regularly and on a substantial scale. The Plan generally is functioning smoothly, and all those concerned in its execution have worked together loyally and in a spirit of friendly accommodation.

In other ways the results have been no less significant. Following the declaration made in connection with the signing of the London Agreement in August, 1924, the French and Belgian Governments have on their part completed within the year the evacuation of the Ruhr. The so-called sanction towns of Ruhrort, Duisburg, and Düsseldorf have likewise been evacuated. In the broader field of relations between Germany and her former enemies the Plan also has played its undoubted part in restoring trust and confidence and mutual good will.

It is still too soon to draw conclusions about the ultimate results of the Plan. The fact is, however, that it has reduced the problem of reparations to a rational basis and provided for the determination of its possibilities by the test of actual experience. Its great virtue, as the Experts said in their Report, is that it adjusts itself to realities. The first year of the Plan, in the contemplation of the Experts, was to be a year in which the foundations should be laid for German economic recovery. It was intended to give time for readjustment to proceed, and accordingly placed no burden on the German budget and but little on the German economy. It provided at the same time for

reparation payments and deliveries in considerable volume, but for the most part the funds necessary for financing them were to come from the proceeds of the external loan. In that sense, the first year has not been so much a test of German capacity to pay, as it has been a test of the ability of the German economy to adjust itself to the return of stable conditions.

It is now in order to review the operation of the Plan during its first year.

II. The Administration of the Annuity.

The administration of the Annuity has continued throughout the year in accordance with the provisions of the Plan, without unusual incident. Germany has punctually made the payments required of her, and has at the same time co-operated in the most helpful way in making arrangements for future payments that will facilitate the smooth working of the Plan. The creditor Powers, on their side, have been able to take their respective shares in the Annuity regularly and in accordance with expectations, and the payments for the service of the German External Loan and other prior charges have all proceeded normally and as contemplated by the terms of the Plan.

It will be helpful, in order to get a clear picture of what has been done, to review more fully the year's operations and to observe not merely the make-up of the Annuity but also the distribution in detail of the first year's payments.

a. The constitution of the Annuity.

Under the terms of the Experts' Plan, the German External Loan provided the bulk of the first Annuity, and thus simplified the problem of the first year. In the subsequent years the Annuity increases in amount, and the burden gradually falls more heavily on the German economy, in the form of direct contributions from the German budget and the charges on the German railroads and industry.

(1) *The provisions of the Plan.*—It was the intention of the Experts that during the first year the Plan should not involve any burden upon the German budget. It provided for an Annuity of 1,000,000,000 gold marks to be paid for the first year, but out of this sum 800,000,000 gold marks were to come from the proceeds of an external loan. This took the form of the German External Loan, 1924, and its proceeds made it possible, as contemplated by the Plan, to finance essential deliveries and payments during the initial period of operations without putting any burden on the German Government. The Plan provided that the remainder of the first year's Annuity, amounting to 200,000,000 gold marks, would come from the German Railway Company, as interest on the reparation bonds given by the Company.

In the second Annuity year, which began September 1, 1925, the Annuity amounts to 1,220,000,000 gold marks, and involves for the first time a possible charge on the German budget. The Plan provides for a budget contribution during this year of 250,000,000 gold marks, and also for the payment of 250,000,000 gold marks from the yield of the transport tax. At the same time, the Plan assumed that before the end of the year the German Government would be in effective possession

of 500,000,000 gold marks as its share of the proceeds of sale of the preference shares of the Railway Company, and provided that if necessary recourse might be had to an appropriate internal loan for the purpose of raising the prescribed contribution. Apart from the payments thus to be made by the German Government, the remainder of the second Annuity comes from (1) the year's interest on the reparation bonds of the German Railway Company, to the amount of 595,000,000 gold marks, and (2) the first payments of interest on the German industrial debentures, yielding 125,000,000 gold marks for the year.

In the third and succeeding years of the Plan there are other changes in the constitution of the Annuity, leading up gradually to the standard year, which contemplates an aggregate charge of 2,500,000,000 gold marks.

The composition of the Annuity for the successive years of the Plan is shown in graphic form in the statement which is annexed hereto as Exhibit I.

(2) *The payment of the first Annuity.* — The first Annuity of 1,000,000,000 gold marks was all paid within the year into the account of the Agent General for Reparation Payments with the Reichsbank. In accordance with the terms of the Plan, the German External Loan provided 800,000,000 gold marks for the Annuity, and this was all drawn during the year. As explained in the previous Report, the loan proceeds were paid into a special account at the Reichsbank, in the name of the Reich but under control of the Agent General, and withdrawals were then made from this account as needed to meet current payments under the Plan. The balance of the first Annuity, amounting to 200,000,000 gold marks, was duly paid by the German Railway Company, as interest on its reparation bonds. The Railway Company made its first payment on February 28, 1925, in the amount of 100 million gold marks. The second instalment was due September 1, 1925, but it was in part anticipated during August in accordance with the arrangements for advance payments which were made between the Agent General and the Railway Company, as indicated in the previous Report. In this way, 40 million gold marks, less discount, were paid on August 1, 1925, and the balance of 60 million gold marks was voluntarily paid by the Company on August 31, 1925, one day in advance of the legal due date, thus completing the payment of the Annuity within the limits of the year.

(3) *Arrangements for the second Annuity.*—The second Annuity presented one problem of administration which had to be solved in good time in order to assure the orderly execution of the Plan during the second year. The difficulty was that under the terms of the Plan and the London Agreement the great bulk of the second Annuity became payable only semi-annually, and in part only after the end of the year. The interest on the railway bonds, for example, amounting to 595 million gold marks and constituting nearly half of the year's Annuity, was payable semi-annually according to the terms of the bonds, and would not become legally due until March 1, 1926, and September 1, 1926. There was a similar situation with the interest on the industrial debentures, and besides that there was no definite arrangement in respect to the payment of the budget contribution of 250 million gold marks. This, in fact, was in the nature of a contingent contribution, to be paid out of the budget if not met by the sale of preference shares of the

Railway Company or through an internal loan, and there was no provision for its current withholding from the yield of the controlled revenues.

It was essential in the interest of all concerned that arrangements should be made for spreading these payments more evenly through the year. From the point of view of the creditor Governments, it was important to have funds currently for the purpose of financing regular monthly programmes of payments and deliveries, and there were various monthly charges to be met, as, for example, for the service of the German External Loan and for the expenses of the various commissions. It was no less important from the point of view of the German economy, both because German producers needed to have the assurance of regular monthly orders for deliveries in kind and because it was not desirable to subject either the German budget or the German currency to the strain of making too large payments on any one date. The Agent General accordingly called the situation to the attention of the Reparation Commission at the very beginning of the first Annuity year, and the Allied Finance Ministers, when they met in January, 1925, formally recognised the importance of having the payments arranged in an even flow throughout the year and authorized the Reparation Commission and the Agent General to make appropriate arrangements to this end. The German Government and the German Railway Company have most helpfully given their co-operation to the same end, and as a result the payments on account of the second Annuity are now arranged on substantially a monthly basis, in such a way as to permit the financing of a normal programme each month.

Mention has already been made in the previous Report of the arrangement made between the Agent General and the German Railway Company, under which the interest on the railway bonds will be paid monthly during the second and third years of the Plan, subject to a discount at the rate of 6 per cent per annum on all advance payments. The Reparation Commission formally approved this arrangement at its meeting on June 19, 1925, and authorized the Agent General to charge against the Annuity as a whole such sums as might have to be paid by way of discount on advance payments. The agreement is now in actual operation, and under it the German Railway Company has already made two monthly payments in advance, on October 1 and November 1, 1925, in the amount of 50,000,000 gold marks each, less the prescribed discount. The Agent General has at the same time made arrangements with the Reichsbank for the temporary investment of such parts of these advance payments as may not be needed for the purpose of immediate disbursement, in order to save to the Annuity as much as possible of the discount.

The interest on the German industrial debentures is payable in two equal instalments on April 1 and August 25, 1926. This is required by the terms of the debentures themselves and by the practical arrangements for collecting the charge, and it has not been feasible, therefore, to readjust these payments to a monthly basis.

As to the receipts from the other two sources, however, that is to say, from the transport tax and the contribution from the German budget, satisfactory arrangements have been made, in cooperation with the German Government, for their payment on substantially a monthly basis. In consequence, the budget contribution is being

paid in the amount of 30,000,000 gold marks on September 15, 1925, and at the rate of 20,000,000 gold marks on the 15th of each succeeding month through the second Annuity year, making a total of 250,000,000 gold marks. The payments for September, October and November have already been made in due course. The transport tax is also being paid monthly, the first payment becoming due on September 21, 1925, with monthly payments thereafter on the 21st of each succeeding month (except April, 1926), up to the prescribed total of 250,000,000 gold marks for the year. The transport tax is collected by the German Railway Company, and the monthly payments on this account depend on traffic during the preceding month. The German Government itself would have been entitled to receive the September, 1925, collections, as representing the returns for the month of August, but in order to facilitate the orderly arrangement of the Annuity it agreed to let the September collections go to the Agent General, on the understanding that it will recoup itself out of the collections in the month of April, 1926, when the Annuity will be in funds by reason of the receipt of the first instalment of interest on the industrial debentures. The payments on account of the transport tax are coming in regularly, through the German Railway Company, and amounted in September to 28,010,776 gold marks, in October to 25,863,240 gold marks, and in November to 26,062,188 gold marks. All three payments have been materially in excess of what would be an average monthly quota on the basis of 250,000,000 gold marks for the year.

b. The distribution of the Annuity.

The distribution of the payments received from Germany under the Plan has proceeded in an orderly manner among the various objects of expenditure contemplated by the terms of the Plan. The bulk of the payments, except those for the service of the German External Loan, have been made in reichsmarks within Germany, chiefly for deliveries in kind (including payments under the Reparation Recovery Acts, as defined by the Plan), and for the costs of the armies of occupation. This is in accord with the intentions of the Experts, who stated in their Report that in the interest of currency stability and to aid the successful inauguration of the new Reichsbank, the proceeds of the German External Loan should "be used exclusively for financing internal payments, such as deliveries in kind (whether direct or by the operation of the Reparation Recovery Act), and that part of the costs of the armies of occupation which represents expenditure in Germany by or on behalf of these armies." Elsewhere in the Plan the Experts referred more generally to the necessity of "expending almost exclusively within Germany" the sums available during the first two Annuity years.

(1) *Basis of distribution.* — The Finance Ministers' Agreement of January 14, 1925, made it possible to determine the proper distribution of the Annuities among the various objects of expenditure and fixed the various priorities to be observed in the distribution of the Annuity. The service of the German External Loan, 1924, was already a first charge on the Annuities, under the terms of the London Agreement, and the Finance Ministers' Agreement provided for certain other charges, following after the service of the loan, which were to come out of the

Annuity before calculating the shares of the Powers. It is unnecessary here to summarize these provisions in detail, except to state that the shares of the respective Powers include not merely their several shares of reparations, as divided according to the so-called Spa percentages, but also their respective allowances on account of restitution, army costs, both current and in arrears, and the allotments for the Belgian war debt. There is also the special share allotted to the United States of America to provide for the American claims on account of costs of the American army of occupation, in arrears, and the awards of the Mixed Claims Commission, between the United States and Germany.

Tables showing the approximate distribution of the first and second Annuities, revised in accordance with the best information available, are attached to this Report as Exhibits II and III, respectively.

(2) *Distribution of the first Annuity.* — The accounts of the Agent General for Reparation Payments for the first Annuity year have been audited by Messrs. Price, Waterhouse & Co., Berlin. Copies of the Balance Sheet as of August 31, 1925, and of the Statement of Receipts and Payments for the first Annuity Year (September 1, 1924, to August 31, 1925), in the form certified by the auditors, are attached to this Report as Exhibits IV and V, respectively. There are also attached two further statements showing the distribution of the first Annuity in greater detail, one, appearing as Exhibit VI, which gives the detailed distribution among the Powers of the amounts available for expenditure during the year, and the other, appearing as Exhibit VII, which analyses the payments and outstanding liabilities for the first Annuity year according to categories of expenditure.

There were two general classes of prior charges to meet out of the first Annuity before making distributions to the Powers. One was for the service of the German External Loan, 1924, which took about 77 million gold marks during the first Annuity year. The other was for the expenses of the various Inter-Allied Commissions, including the Inter-Allied Rhineland High Commission, the Military and Naval In er-Allied Commissions of Control, the Reparation Commission, the Office for Reparation Payments, and the European Commission of the Danube. The total costs of these commissions amounted, in round figures, to about 27 million gold marks during the year. Out of the entire Annuity of 1,000 millions of gold marks, these prior charges, therefore, absorbed about 104 million gold marks, leaving a balance of about 896 millions for distribution among the Powers.

The following table shows the distribution in detail among the various prior charges and among the Powers:

A. Charges preceding distribution to Powers:		
Service of German External Loan		77,005,523.09
Administrative and Control Commissions:		
Reparation Commission.....	5,550,000.00	
Office for Reparation Payments	3,700,000.00	
Rhineland High Commission ...	9,429,887.64	
Inter-Allied Military and Naval Commissions of Control	7,820,739.81	
European Commission of the Danube	216,106.33	26,716,733.78
	Total	103,722,256.87

B. Amounts allocated to the Powers:

	Payments and accounts in course of payment	Unexpended balance	Total[1]
France	427,896,781.43	23,802,218.57	451,699,000.00
British Empire	190,242,053.85	167,946.15	190,410,000.00
Italy	63,776,529.99	2,326,470.01	66,103,000.00
Belgium	97,958,782.78	15,965,217.22	113,924,000.00
Serbia	31,164,921.80	1,910,078.20	33,075,000.00
United States of America	—	15,306,000.00	15,306,000.00
Roumania	7,394,225.43	Cr 2,225.43	7,392,000.00
Japan	3,809,332.46	1,144,667.54	4,954,000.00
Portugal	4,926,878.05	27,121.95	4,954,000.00
Greece	2,642,364.43	Cr 364.43	2,642,000.00
Poland	40,179.12	32,820.88	73,000.00
Totals	829,852,049.34	60,681,950.66	890,534,000.00

C. Balance of the First Annuity unallocated at August 31, 1925 ..... 5,998,513.42

Total of First Annuity ..... 1,000,254,770.29[2]

(3) *The use of the first Annuity by the creditor Powers.*—The distribution of the first Annuity appears more clearly upon analysis of the manner in which the respective Powers have taken their shares. This is shown in detail in the Exhibits at the end of the Report, particularly by comparison of Exhibits II and VI.

It is of interest to see specifically how the various Powers have utilized their respective shares:

(1) *The United States of America.*—The share of the United States in the first Annuity amounted to about 15,328,000 gold marks. Up to this time no part of this share has been utilized by the United States Government, and it remains to the credit of the United States on the books of the Agent General.

(2) *France.*—The French Government's share amounted to about 454,471,000 gold marks. Of this sum, it has taken during the year about 136,500,000 gold marks for the expenses of its armies of occupation in the Rhineland and the Ruhr, some of it in the form of reichsmarks supplied to the armies of occupation and the rest chiefly in the form of requisitions and furnishings to the armies. France has also taken about 25 million gold marks through the operation of its Reparation Recovery Act, receiving the equivalent in francs at the Banque de France. Of the remainder of the French share, about 190 million gold marks went to pay for deliveries of coal, coke and lignite, and for transport thereon, while nearly

(1) The amounts allocated to the Powers during the first year, as shown in this table, do not entirely absorb their respective shares as shown in Exhibit II, attached to this Report, chiefly because of the necessity of accelerating redemptions of the German External Loan, 1924, in order to avoid drawings. The remaining amounts have been largely allocated during the month of September, 1925.

(2) The sum of 254,770.29 represents gain in exchange and interest received, less discount, during the first Annuity year.

20 million gold marks was spent for chemical fertilizers, and about 5 million marks for deliveries of dyestuffs and pharmaceutical products. In addition, nearly 21 million marks were spent for miscellaneous deliveries of various kinds. This makes a total payment of about 235 million marks for deliveries in kind to France during the year. Moreover, there were at the end of the year outstanding liabilities on account of the French share in the Annuity aggregating over 31 million gold marks. These were distributed among the various classes of deliveries in kind, chiefly for coal and coke, and their transport, and represented for the most part deliveries already made for which drafts had not yet come through for payment. Furthermore, an amount of approximately 7 million gold marks was held committed under approved contracts but had not yet been called for, chiefly owing to delays in delivery. In other words, out of France's total share of about 454,471,000 gold marks, approximately 434,696,000 gold marks were either paid out during the first Annuity year or were effectively committed on account of deliveries already executed or in course of execution.

(3) *The British Empire.*—The total British share in the first Annuity amounted to about 190 million gold marks, of which about 30 million gold marks were taken for the expenses of its army of occupation in the Rhineland. Nearly 5 million marks of the British share went to pay for deliveries of dyestuffs and pharmaceutical products. The entire balance of the British share, amounting to slightly over 155 million gold marks, was collected through the operation of the Reparation Recovery Act, in the form of its sterling equivalent at the Bank of England in London.

(4) *Belgium.*—The share of Belgium in the first Annuity aggregated about 115,838,000 gold marks. Of this sum the Belgian Government had taken during the year about 20,500,000 gold marks for costs of its armies of occupation in the Ruhr and the Rhineland. The largest item, however, was for deliveries of coal, coke and lignite, with the transport thereon, which altogether amounted to 56,500,000 gold marks. About 1,100,000 gold marks, moreover, was paid on account of the restoration of the library of the University of Louvain. In addition, there have been miscellaneous deliveries to Belgium amounting to about 11,500,000 gold marks, and deliveries of dyestuffs and pharmaceutical products to the amount of 3,750,000 gold marks. At the end of the year there were outstanding liabilities against the Belgian share in the Annuity, aggregating just under 4,500,000 gold marks, of which about 3,500,000 gold marks were for coal and its transport. Beyond this, approximately 500,000 gold marks were held committed under approved contracts but had not yet been called for, chiefly owing to delays in delivery. The result is that out of its total share of about 115 million gold marks Belgium spent or committed during the first Annuity year approximately 93,350,000 gold marks.

(5) *Italy.*—The Italian share amounted to about 66,638,000 gold marks. Most of this was taken in the form of deliveries of coal, coke and

lignite, which, with the transport thereon, called for the payment of about 50 million gold marks during the year. There were also deliveries of dyestuffs and pharmaceutical products to the amount of nearly 9 million gold marks, and a relatively small amount of miscellaneous deliveries aggregating about 1,750,000 gold marks. In addition, there were at the end of the year outstanding liabilities on account of the Italian share in the Annuity aggregating approximately 3,400,000 gold marks, practically the whole of which was in respect of coal transport. This means that practically the entire Italian share was effectively spent during the year, approximately 64,150,000 gold marks altogether having been actually paid out or definitely committed on account of deliveries already executed or in course of execution.

(6) *Japan.*—The share of Japan in the first Annuity amounted to about 4,994,000 gold marks. Out of this it has taken about 3,800,000 gold marks for deliveries of dyestuffs and pharmaceutical products, and the balance is apparently being held for commitment on one special contract.

(7) *Serb-Croat-Slovène State.*—The Serbian share amounted to about 33,343,000 gold marks. Aside from small deliveries of pharmaceutical products, practically the entire share was taken during the year in the form of miscellaneous deliveries. These deliveries covered an exceptionally wide range, and they included a great variety of goods for purposes of reconstruction, ranging from agricultural implements to industrial machinery and railway equipment.

(8) *Portugal.*—The Portuguese share amounted to about 4,994,000 gold marks. Practically all of this was spent during the year for miscellaneous deliveries.

(9) *Roumania.*—The Roumanian share amounted to about 7,450,000 gold marks. This was practically all taken during the year for miscellaneous deliveries.

(10) *Greece.*—The share of Greece in the Annuity amounted to about 2,664,000 gold marks, practically all of which was spent during the year for miscellaneous deliveries. These included, among other things, a considerable number of wooden huts for the housing of refugees from Asia Minor and Thrace.

(11) *Poland.*—The Polish share in the Annuity, arising entirely on account of restitution, amounted only to about 73,000 gold marks. Of this amount, about 40,000 gold marks have been spent for the purchase of horses in Germany, and for incidental expenses in connection therewith.

From the foregoing summary it appears that with the exception of the United States of America, which took nothing, the remaining creditor Powers, having regard to the size of their shares, spent or committed within the year substantially all, or by far the largest part, of the funds available to them. The largest amounts remaining unused belonged to France and Belgium, and in both cases were due principally to the fact that toward the end of the Annuity year settlements were made on account of the expenses of their respective armies of occupation which freed unexpectedly large credits for

expenditure on other accounts. The unexpended credits have been carried forward for expenditure in the second Annuity year, and the Powers may employ them accordingly for appropriate current purposes.

c. The management of the Annuity.

The provisions of the Experts' Plan have made it possible to establish a business-like administration of reparation payments and to organise in an orderly way their distribution among the creditor Powers. This has operated to the benefit of both Germany and her creditors. From the point of view of Germany, it has meant, as the Experts said, putting an end to a system under which demands could be "made upon her from time to time during the year which cannot be calculated beforehand." Under the Plan her liabilities for any particular year are limited and made inclusive of all possible charges. From the point of view of the creditor Powers, the Plan has assured an orderly distribution of reparation receipts and facilitated an even flow of deliveries and payments throughout the year.

The fundamental basis for the orderly management of the Annuity has been the provision of Section XII of Part I of the Plan to the effect that "all payments for the account of Reparations (whether from interest and sinking fund on railway or industrial debentures, the transport tax, or from the budget contribution) will be paid in gold marks or their equivalent in German currency" into the account of the Agent General for Reparation Payments with the Reichsbank. This payment, the Plan goes on to provide, is "the definitive act of the German Government in meeting its financial obligations under the Plan." Another fundamental provision is Section XI of Part I, which defines the all-inclusive character of the Annuity thus payable by Germany. This Section provides that the payments which Germany is to make into the Annuity "comprise all amounts for which Germany may be liable to the Allied and Associated Powers for the costs arising out of the war, including reparation, restitution, all costs of all armies of occupation, clearing house operations to the extent of those balances which the Reparation Commission decides must legitimately remain a definitive charge on the German Government, commissions of control and supervision, etc." It goes on to state that wherever the Plan or its Annexes refers to "Treaty payments, reparation, amounts payable to the Allies, etc.", it uses these terms "to include all charges payable by Germany to the Allied and Associated Powers for these war costs" and also to include various special payments under the Treaty of Versailles.

With these underlying principles clearly established by the Plan itself, it has been possible, from the outset, to administer the Annuity in accordance with business principles, and to regulate in an orderly way the expenditures on the various accounts. In addition, the result has been to encourage both sides to arrive promptly at definite settlements in respect to the various charges payable out of the Annuity. This has made it possible to end the old practice of carrying provisional items for long periods in an unsettled state, and to put the Annuity accounts on a definite basis.

(1) *Regulation of Programmes.* — From the beginning of operations under the Plan the Agent General has followed the practice of arranging monthly programmes of deliveries and payments. For the first few

months this presented certain practical difficulties, largely owing to the fact that the reparation accounts had become so greatly complicated and involved so many unsettled items that it was hard to define the arrangements for expenditure. Moreover, none of the Powers was in a position to state exactly what it was entitled to receive until the Finance Ministers had taken their decisions as to the distribution of the Annuity. With the conclusion of the Finance Ministers' Agreement of January 14, 1925, it became possible to determine definitely the various prior charges on the Annuity and the shares of the respective Powers, and from that time on there has been no difficulty in framing regular monthly programmes. The Finance Ministers, moreover, included in their Agreement a definite recognition of the desirability of having deliveries and payments spread as evenly as possible throughout the course of each year, and from the outset the Transfer Committee has taken the same position, believing that it was important from the point of view of both the German economy and the foreign exchange to avoid undue concentration of the burden of the payments. Throughout the course of the first Annuity year it has accordingly been the practice to follow monthly programmes of expenditure, adjusted as nearly as possible to the equivalent of one-twelfth of the first Annuity, that is to say, to an average of about 83 million gold marks per month.

For the second Annuity year, there will likewise be regular monthly programmes of deliveries and payments. In addition, the Agent General has arranged to present every three months to the Reparation Commission and the Transfer Committee the draft programmes for the ensuing three months, with a view to assuring advance consideration of the various items of expenditure, as contemplated by the Plan. It is not feasible, for the purposes of the monthly programmes in the second year, to contemplate an expenditure each month of exactly one-twelfth of the Annuity, for the reason that the interest on the industrial debentures, amounting to 125 million gold marks, could not be rearranged on a monthly basis and will be payable in two instalments on April 1 and August 25, 1926. For the first seven months of the second Annuity year, therefore, the monthly programmes amount to around 90 million gold marks each month, or about 10 million gold marks per month less than would be the theoretical monthly average for the second Annuity year. This difference, of course, will be taken up in the programmes after the receipt of the interest from the industrial debentures.

(2) *Settlement of provisional items.*—At the beginning of operations under the Plan, and principally during the transition period, it was necessary to treat certain classes of expenditure on a provisional basis. This was true particularly of the expenditures for the armies of occupation. The Agent General, however, has constantly urged the early settlement of all these provisional items, and at the same time has adopted the general policy of requiring definite settlements, wherever possible, as a condition of making payments out of the Annuity.

The result is that within a short time after the end of the first Annuity year there were only three provisional items of any importance remaining in the accounts, and these are in process of settlement. The items remaining are (a) the value of requisitions and damages under Article 6 of the Rhineland Agreement, for the first Annuity year;

(b) the value of furnishings, requisitions and damages in the Ruhr, for the period from April 1 to August 31, 1925; and (c) the value of services rendered by the German Railway Company to the armies of occupation in the Rhineland, for the period from April 1 to August 31, 1925. With the exception of these items, which are all relatively small, the costs of all services, furnishings, requisitions and damages in respect of the various armies of occupation have now been settled on a lump sum basis by agreements between the respective parties.

It is of interest to find that, in harmony with the general spirit of the Experts' Plan, important steps have also been taken during the year toward the settlement of various outstanding matters affecting the years prior to the adoption of the Plan. The Finance Ministers' Agreement of January 14, 1925, recognized the importance of reaching a settlement of these matters, and under the authority specially granted by this Agreement the Reparation Commission, in cooperation with the German Government, has since made important progress in the settlement of the outstanding accounts, including those for the Ruhr occupation.

(3) *Administrative organization.*—A summary of the organization established for the administration of the Experts' Plan is given in the table which is annexed hereto as Exhibit VIII. As will be noticed, this summary includes the staff of the Agent General for Reparation Payments, the Transfer Committee, and the several Commissioners and Trustees, as well as the staff of the general administrative services of the Office for Reparation Payments. During the first year the organization as a whole has kept safely within the sum allocated for its expenses under the terms of the Finance Ministers' Agreement of January 14, 1925. These expenses make an aggregate charge against the Annuity of something less than 3,700,000 gold marks for the year, that is to say, at the rate of less than 4/10ths of 1 per cent of the fund administered. The organization is being held down at all times to the minimum consistent with its responsibilities, and now that the heavy initial work of organization has been accomplished it should be possible, unless unforeseen conditions arise, to look forward to some reductions of staff.

d. Arbitration proceedings.

It will be recalled that the London Agreement provided* that, in the absence of other provisions for arbitration, "all disputes which may arise between the Reparation Commission and Germany with regard to the interpretation either of the agreement concluded between them, the Experts' Plan, or the German legislation enacted in execution of that plan, shall be submitted for decision to three arbitrators appointed for five years; one by the Reparation Commission, one by the German Government, and the third, who shall act as president, by agreement between the Reparation Commission and the German Government, or failing such agreement, by the president for the time being of the Permanent Court of International Justice."

As a result of subsequent agreement between the parties to the London Protocol, this board of arbitrators was increased from three to five in number, all appointed for five years, one by the Reparation

* Clause 1 of Annex II of London Protocol, dated August 16, 1924.

Commission, one by the German Government, and three by agreement in each case between the Reparation Commission and the German Government, or, failing such agreement, by the president for the time being of the Permanent Court of International Justice, two of these three being of the nationality of a State or States which were neutral during the recent war, and one, who is to act as president, being a citizen of the United States of America. This board of arbitrators has been duly constituted as follows:

Mr. Walter P. Cooke, of Buffalo, N. Y., U. S. A., President,
M. Marc Wallenberg, of Stockholm, Sweden,
M. A. G. Kröller, of The Hague, Holland,
M. Rist, of Paris, France,
M. Mendelssohn-Bartholdi, of Hamburg, Germany.

The full board has already met for purposes of organization, and to receive the terms of submission to it of certain outstanding points of disagreement between the Reparation Commission and the German Government with respect to the interpretation of the Experts' Plan.

The questions which have thus far arisen for determination relate to the interpretation of Section XI of Part I of the Plan, and are, specifically, as to whether or not the Annuities shall "comprise the respective payments or transfers following, that is to say:

I. The transfers to be made by Germany to France in pursuance of Article 77 of the Treaty of Versailles, following a decision of the Council of the League of Nations dated the 21st June, 1921, in respect of social insurance funds relating to Alsace-Lorraine.

II. The transfers to be made by Germany to Belgium in pursuance of Article 312 of the Treaty of Versailles and the Agreement of the 9th July, 1920, between Germany and Belgium in respect of social insurance funds relating to territories ceded by Germany to Belgium.

III. The transfers to be made by Germany to Poland in pursuance of Article 312 of the Treaty of Versailles in respect of social insurance funds relating to Upper Silesia, the amounts of which transfers (other than that of the miners' superannuation fund which still remains to be settled) were determined by a decision of the Council of the League of Nations dated the 9th December 1924.

IV. Payments under Article 62 of the Treaty of Versailles in respect of civil and military pensions earned in Alsace-Lorraine on the 11th November 1918.

V. Payments under the Agreement of the 9th January 1920 made between the German and Polish Governments in pursuance of Article 92 of the Treaty of Versailles, in respect of civil and military pensions.

VI. Restitution of Belgian railway rolling stock effected by Germany under the restitution agreement with Belgium dated the 6th September 1924.

VII. Restitutions in specie under Article 238 of the Treaty of Versailles and objects of every nature or securities."

VIII. The sum of £ 14,185-9-8. owing by Germany to Great Britain as payment for coal supplied in December 1918 and January 1919 to the steamship "Jerusalem".

e. The German External Loan, 1924.

Under the terms of the General Bond securing the loan the date of the German External Loan was October 15, 1924, and the first year of the loan ended on October 15, 1925. The loan year, therefore, does not exactly correspond with the Annuity year, and it is not possible to describe the work of the loan simply in terms of the Annuity year.

The service of the German External Loan has proceeded throughout the first loan year as contemplated by the General Bond. The Agent General, acting for the Trustees, has provided the necessary funds out of the Annuity, in accordance with the terms of the Plan, and during the first loan year has expended about 88,945,000 gold marks for the purpose. Of this sum about 77,005,000 gold marks were actually advanced to the Trustees for the service of the loan during the first Annuity year. Aside from the payment of interest when due, the funds thus provided, to the amount of about 25,584,000 gold marks, have been used for purposes of amortization, in accordance with the terms of the General Bond, and in all cases except the Swedish *tranche* have been employed, through the respective paying agents, in the purchase of outstanding bonds in the market at less than the prices at which they could be redeemed by drawings. The Swedish *tranche* presented a special case, since there the bonds are all in the hands of a holding company, which has issued its own bonds to the public. For all the other *tranches* it proved possible to avoid the necessity of drawings during the first loan year, and in this way to make a saving of over two million gold marks through purchases in the market at lower prices than the redemption prices. This saving accrues to the benefit of the Annuity, and indirectly, therefore, to the benefit of the creditor Powers.

A statement showing the condition of the German External Loan at the close of the first loan year, as of October 15, 1925, is attached to this Report as Exhibit IX. It indicates, with respect to each *tranche*, the nominal amount of bonds originally issued, the nominal amount redeemed during the year through the operation of the sinking fund, the nominal amount outstanding as of October 15, 1925, the amount expended during the year for sinking fund purposes, and the amount of capital saving resulting from purchases in the market below the redemption prices.

The definitive bonds for all *tranches* of the loan, except the Swedish and the German, have been made available during the year in exchange for the temporary certificates or receipts originally issued. In the case of the Swedish *tranche* the bonds themselves are held by the holding company, and the obligations of the holding company are outstanding in the hands of the public. The German *tranche*, which was subscribed through the Reichsbank, is still covered by temporary receipts. For all the sterling *tranches* of the loan the Trustees have also established during the year a clearing system, operating through the Bank of England, which is designed to facilitate the redemption and payment of the bonds and coupons of the six sterling *tranches* at the offices of any of the paying agents thereof.

III. The Transfer Committee.

The Experts stated it to be their conviction "that some kind of coordinated policy, with continuous expert administration with regard to the exchange, lies at the root of the reparation problem and is essential to any practicable scheme for obtaining the maximum sums from Germany for the benefit of the Allies". The Plan accordingly provided for a Transfer Committee consisting of the Agent General for Reparation Payments, as Chairman, and five other members — American, French, British, Italian and Belgian. This Committee has control over "the use and withdrawal" of the funds paid by Germany in gold marks, or their equivalent in German currency, into the Agent General's account. The Plan provides also that the Committee shall regulate the execution of the programmes for deliveries in kind and Reparation Recovery Act payments in such manner as to prevent difficulties arising with the foreign exchange, shall control the transfer of cash to the Allies by purchase of foreign exchange, and generally so act as to secure the maximum transfers without bringing about instability of currency. The German Government and the Reichsbank have undertaken "to facilitate in every reasonable way within their power the work of the Committee in making transfers of funds, including such steps as will aid in the control of foreign exchange". The Committee is also given powers to defeat any concerted financial manoeuvers that may be made for the purpose of preventing transfers, and is authorized to inform the President of the Reichsbank if, in the opinion of the Committee, the bank's discount rate is not in relation to the necessity of making important transfers. In general, the Committee is entrusted with a large share of responsibility for conserving and protecting the German currency, and at the same time is charged with the duty of making the maximum possible transfers to the creditor Powers without threatening the stability of the German exchange.

The position of the Transfer Committee is in many respects unique, and during the first year of its operations it has necessarily had to spend a large share of its time in formulating policies and in preparing the groundwork for the discharge of its duties in the future. To this end it has organized its own Economic Service, and has been fortunate in securing the services of four highly-qualified economic advisers and an able staff to assist them in their studies of economic conditions affecting the work of the Committee. The Committee itself has met regularly throughout the year, holding its first meeting in Berlin on October 31, 1924, at the time of the completion of the permanent organization under the Plan. It has met thereafter once in each month. There has been one change in the personnel of the Committee during the year. In June, 1925, M. Albert Janssen, the Belgian member, resigned his position on the Committee in order to accept the post of Minister of Finance of Belgium. M. René Tilmont, Director of the Banque Nationale de Belgique, was duly appointed as Belgian member in his stead.

The first year has also been an important one from the point of view of transfers. The Annuity itself amounted to 1,000 millions of gold marks, and out of this sum actual payments have been made, under authority of the Committee, to the amount of about 893 million gold marks. Other items in process of payment but not actually paid at

August 31, 1925, amounted to over 40 million reichsmarks, so that the effective transfers during the first Annuity year may be said to have amounted to over 933 million gold marks. This left a balance of about 67 million gold marks available for transfer at the end of the year, and this has since been in process of utilization. It is to be noted, moreover, that the balance remaining at the end of the year was attributable to ordinary business reasons and not to difficulties of transfer. For the most part it arose from unexpected credits made available to France and Belgium toward the end of the year through adjustments of the costs of the armies of occupation, and from natural delays in the execution of contracts already made for deliveries in kind. Apart from its interest in actual deliveries and payments, the Transfer Committee has also been actively concerned during the year with the general arrangements for payments under the Reparation Recovery Acts and for deliveries in kind. The position of the Reparation Recovery Acts was fully explained in the previous Report, and the administration of deliveries in kind is examined in greater detail below.

a. Transfers into foreign currencies.

During the first year of the Plan the Transfer Committee has made no cash transfers to the creditor Powers, and its purchases of foreign currencies have consisted chiefly of the amounts required for the service of the German External Loan, 1924, and for various incidental expenses of administration. In addition, there have been a few exceptional purchases of foreign currencies in connection with the transport of deliveries of coal and coke, principally on the Lower Rhine.

The purchases of foreign currencies required for the service of the loan and for the incidental expenses above mentioned have been accomplished in regular course through the Reichsbank.

b. Regulation of deliveries in kind.

The principal transfers during the first Annuity year have taken the form of deliveries in kind. This is in accordance with the intention of the Experts. The Plan, it will be recalled, contemplated that for the first two years of its operation the great bulk of the payments out of the Annuity should be made within Germany, particularly during the first year when the funds available for distribution arose principally from the proceeds of the German External Loan. It also provided expressly that the loan was to serve the purpose not only of assuring currency stability but of "financing essential deliveries in kind during the preliminary period of economic rehabilitation". Deliveries in kind have accordingly absorbed a large share of the first year's payments, and have correspondingly engaged the attention of the Transfer Committee.

Under the terms of the Plan the Transfer Committee has two principal functions in respect to deliveries in kind, that is to say, *first*, to be consulted by the Reparation Commission in the formulation of programmes, and particularly as to the character and amount of the deliveries, and, *second*, after the programmes have been approved by the Commission, to regulate their execution in such a manner as to prevent difficulties arising with the foreign exchange. In considering the relation of the Transfer Committee to deliveries in kind it will be helpful, first of all, to examine the status of deliveries under the Plan,

and then to review the general course which deliveries have taken during the first year of its operation.

(1) *Status of deliveries under the Plan.* — The Experts' Plan, as supplemented by the London Agreement, makes special provision for deliveries in kind and changes in some respects their status under the Treaty of Versailles. Generally speaking, the Treaty contemplated deliveries in kind as consisting chiefly of coal and coke, dyestuffs and other merchandise to be acquired by the German Government from its own nationals and delivered to the Reparation Commission for distribution among the creditor Powers. Subsequent agreements between Allied and German representatives, as, for example, the so-called Wiesbaden Agreement in 1921 and the so-called Bemelmans-Cuntze and Gillet-Ruppel Agreements of 1922, extended the conception of deliveries so as to include deliveries effected under contracts concluded directly between Allied and German nationals. Under the Wiesbaden agreement practically no contracts were ever concluded, but the later agreements did result in contracts for about 81 million and 4 million gold marks worth of deliveries respectively; they were suspended by the occupation of the Ruhr, as far as France and Belgium were concerned. During the Ruhr occupation, deliveries were made under the so-called Micum Agreements, between the "Micum", an organization representing the French and Belgian Governments, and associations of German producers in the Ruhr, as well as by agreement between the Inter-Allied Rhineland High Commission and German producers in the Rhineland. Under all these systems of deliveries, the practice was for the German Government to make the necessary arrangements for the reimbursement of German producers making the deliveries in kind, and to get in return appropriate credit on reparation account.

The Experts' Plan and the London Agreement made a fundamental change in the situation by providing generally that the German payments on reparation account should all be made into the account of the Agent General for Reparation Payments with the new Reichsbank, and stating that this would be the definitive act of the German Government in meeting its financial obligations under the Plan. This meant, in effect, that with the adoption of the Plan deliveries were placed squarely on a cash basis in so far as the reparation account is concerned. It is no longer a question of calling for deliveries of goods on reparation account, leaving it to the German Government to reimburse the German producers in due course. Under the Plan, the Annuity is paid in gold marks into the account of the Agent General at the Reichsbank, and the Agent General makes payment in cash to the German producers against appropriate documents, in substantially the same way that payments would be made on ordinary commercial contracts and with no more delay. The result is to put deliveries in kind on more nearly a commercial basis than ever before, and to encourage procedure for handling them in accordance with ordinary commercial usage.

The Plan also contains some special provisions about deliveries in kind. First of all, it recognizes that "in their financial effects, deliveries in kind are not really distinguishable from cash payments and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting

the exchange or rendering foreign loans necessary." It then recalls the Treaty provisions about deliveries in kind and recognises the necessity for their continuance on proper conditions. "If the principle is not carried too far," the Experts said, "they may represent a stimulus to German productivity and therefore the creation of a greater export surplus," and "may help in avoiding such surplus being absorbed by the prior action of private German investment abroad."

The Experts went on to say that unless deliveries in kind "can be confined to natural products of Germany, such as those specifically dealt with in the Treaty (coal, coke, dyestuffs, etc.) and in the second place to exports which do not entail the previous importation into Germany of a large percentage of their value, they tend to become uneconomic in character." The London Agreement contained further provisions along these same lines with reference to deliveries in kind, and provided specifically for the appointment of a Committee with Allied and German representatives, for the purpose of "determining the procedure for placing orders and the conditions for carrying out deliveries in kind,—adhering as closely as possible to ordinary commercial usage." This Committee, to which reference has already been made in the previous Report, met early in 1925, under the Chairmanship of Mr. Marc Wallenberg, of Sweden, and in its report recommended detailed Regulations for Deliveries in Kind. These have come to be known as the Wallenberg regulations, and following their adoption by the Reparation Commission and the German Government, became effective as of May 1, 1925. The Transfer Committee, as also provided by the London Agreement, was consulted as to the terms of the regulations before their adoption, and made various suggestions looking toward their simplification, particularly with a view to making the procedure for handling payments under the contracts as nearly as possible in accordance with commercial usage.

(2) *Progress of deliveries.* — Deliveries in kind have continued regularly since the adoption of the Plan, partly in fulfilment of the special Treaty obligations above-mentioned, and partly under contracts between Allied and German nationals according to the procedure now governed by the Wallenberg regulations.

During the first Annuity year, deliveries in kind amounted in aggregate value to 454,425,228.98 gold marks, not including, of course, payments under the Reparation Recovery Acts in force in Great Britain and in France (which the Plan defines as being equivalent to deliveries). The following table shows the principal categories of deliveries for the year:

Category	Gold marks	Percentage of total
Coal, coke and lignite	236,618,513.67	52.07
Transport of coal, coke and lignite	85,356,448.83	18.78
Chemical fertilizers	23,272,126.25	5.12
Dyestuffs and pharmaceutical products ...	26,390,050.61	5.81
Restoration of Louvain Library	1,097,112.55	0.24
Miscellaneous deliveries	81,690,977.07	17.98
Totals...	454,425,228.98	100.00

The following statement shows also the distribution of the year's deliveries among the creditor Powers:

Power	Amount (Gold marks)	Percentage of total
France	259,074,596.45	57.01
British Empire	4,535,634.78	1.00
Italy	63,776,529.99	14.03
Belgium	77,060,566.47	16.96
Serb-Croat-Slovene State	31,164,921.80	6.86
Roumania	7,394,225.43	1.63
Japan	3,809,332.46	0.84
Portugal	4,926,878.05	1.08
Greece	2,642,964.43	0.58
Poland	40,179.13	0.01
Totals...	454,425,228.99	100.00

Deliveries of coal, coke and lignite were, of course, the principal deliveries, and with their transport represented about 70 per cent of the total for the first Annuity year. Deliveries of chemical fertilizers, and of dyestuffs and pharmaceutical products, together amounted to about 50 million gold marks, and represented about 11 per cent of the total deliveries. The other principal category, known as the "Miscellaneous deliveries," amounted to over 81 million gold marks, and included a wide variety of goods, as follows:

(a) Livestock—mainly sheep;

(b) Semi-finished products, such as
Construction timber
Telegraph poles
Alcohol
Paving stones;

(c) Finished products, such as
Agricultural machinery
Industrial machinery and equipment, including installations,
Laboratory instruments
Books and publications
Railway material

The possibilities of extending this category of miscellaneous deliveries are indicated by the provisions of the Regulations for Deliveries in Kind to which reference has already been made. These regulations provide that all commodities or services produced by the German economic system may, with certain exceptions and reservations, be purchased on reparation account under a delivery in kind contract. The exceptions are not numerous, but are important. Deliveries of some commodities, such as gold and certain foodstuffs, are entirely prohibited; deliveries of certain other commodities, such as livestock, are limited to specified amounts fixed either in the Regulations themselves or periodically by agreement between the creditor Powers and Germany; and deliveries of commodities containing a substantial amount of raw materials of foreign origin are permitted only on condition that there

is a cash payment in foreign currencies by the Allied buyer to the German seller equivalent to the value of the imported raw materials. Generally speaking, these exceptions are intended to prevent the export on reparation account of goods which might put an undue strain on the German economy, or adversely affect the German exchange by leading to increased requirements for imported goods.

For the most part, the miscellaneous deliveries are made under individual contracts between purchasers residing in the creditor country on the one side and German producers on the other, and their number and extent are recently showing a tendency to grow. Between May 1, 1925, when the Wallenberg regulations went into effect and the end of August, 235 contracts had been approved, all covering miscellaneous deliveries, and by November 15, 1925, the number of such contracts had risen to 805.

(3) *Administration of deliveries under the Plan.* — The London Agreement expressed the desire of the Allied and German Governments that the method of handling deliveries in kind should adhere "as closely as possible to ordinary commercial usage". It cannot be said that this ideal has yet been attained, but it is true, nevertheless, that the procedure has been in some measure adjusted to commercial practice and on the whole has worked reasonably well.

The procedure for placing contracts for deliveries in kind under the Wallenberg regulations is substantially as follows:

A private individual in France, for example, contracts with a private individual in Germany for the delivery of machinery. The contract is concluded in accordance with ordinary commercial practice, except that the German seller agrees to the payment of the sums due under the contract through the Office of the Agent General for Reparation Payments (that is to say, the reparation account), and the buyer on his part expressly agrees not to re-export the commodities purchased. The contract is then sent to the offices in Paris maintained by the Reparation Commission on the one hand and the German Government on the other, for approval under the regulations. After that, it is transmitted to the Transfer Committee. Up to the present time, except for a few exceptional cases, the latter has made no objection to these contracts, subject, however, to a general reservation of its powers to regulate the execution of the programmes for deliveries in kind and to intervene at any time in case the foreign exchange market should not, in the judgment of the Committee, permit payments to be made under the contracts without threatening the stability of the German currency. After the contract has thus been approved for payment on reparation account, and when the date for payment arrives, an authorised representative of the French Government draws a draft upon the latter's credit with the Agent General for Reparation Payments and delivers this draft to the French purchaser, who pays the French Government for the draft on terms agreed upon with it, or, perhaps, by the surrender of war damage claims. The French purchaser then endorses the draft and sends it to the German seller, who deposits it with his bank for collection in the ordinary course. It then passes through the usual machinery of collection, and is presented to the Agent General for payment through the Reichsbank.

The procedure is similar where the purchaser is the creditor government itself, except that in this case the creditor government gets its financial return by reselling the commodity to its own nationals, or by the use of the commodity in one of the government departments, or by budgetary relief from expenditure which it would otherwise have to incur. In the case of France, for example, nearly all the coal received is bought on reparation account by an organisation subject to government control and then is re-sold to French nationals. In the case of Belgium, a large part of the miscellaneous deliveries have been used by the government departments. In the case of Italy, all of the coal delivered is apparently utilized for the operation of the Italian State railways, thereby diminishing the import of fuel calling for payments in foreign currencies.

From the point of view of the transfer of reparation payments, the Transfer Committee has been particularly interested in the methods by which the creditor Powers utilize their credits on reparation account by means of deliveries in kind and, more specifically, in the methods adopted for the disposition of the goods received. The problem is the largest, of course, with France, but it exists also for Belgium and in varying degrees for the others as well.

One method of utilization is for the purpose of direct reparation in the regions devastated by the war. This occurs chiefly in France, and within the past year there have been fairly numerous contracts for deliveries of this character in the devastated areas. Generally speaking, the French Government accepts in payment for such deliveries the bonds previously issued by the government to *sinistrés* (sufferers from war damages) as evidence of the indebtedness of the French Government to the *sinistré* on account of adjudicated awards for war damages. These bonds are taken in payment at their nominal value.

Outside the field of direct reparations, the practice appears to be to sell certain categories of goods, including "Treaty" deliveries such as coal, fertilizers and dyestuffs, through specially created selling agencies controlled by the respective governments, or by consumers' associations at prices approved by the governments. The selling price appears to depend primarily upon the level of domestic prices for similar commodities. The net proceeds of the sales, less a commission to cover the general expenses of the selling organization, go to the creditor government in its own currency. In practice, it usually happens that the creditor Power receives somewhat less than the equivalent of the amount in reichsmarks which the Agent General has paid to the German producers and debited to the receiving country on account of the goods delivered. The extent of this difference depends upon the expenses of distribution within the creditor country, and rather more upon the relation between the domestic price level and the German price level. During the past year the internal price levels in Belgium and France have been, generally speaking, relatively lower in terms of gold than in Germany. The ratio of difference varies with the different commodities, and while there is practically no loss on certain commodities, such as dyestuffs, the general loss is variously estimated as averaging from eight to fifteen per cent. To some extent, also, the receiving countries make concessions in the form of reductions or remissions of customs duties on deliveries in kind.

In the case of contracts passed directly between private Allied buyers and private German sellers, but financed on reparation account, the creditor Powers in many cases also make concessions to their nationals in order to meet the variation between the internal and the German price level. This will usually find expression in the terms on which the government sells to its national the draft against the reparation account which he uses for making payment under the contract. In France this is likely to take the form of a discount below the nominal value of the draft, or to be expressed in favorable terms of credit. In the case of Belgium, the government appears to allow its nationals a credit of three months, without interest, on contracts placed through the reparation account.

The Governments of both France and Belgium are actively studying the question of organizing and improving the procedure for ordering, receiving and distributing deliveries in kind, as well as the problem of reducing overhead costs and diminishing the loss on selling prices. The German Government on its side has undertaken in the London Protocol that it "will facilitate as far as possible the execution of the programmes for all deliveries under either the Treaty or the Experts' Report by means of commercial contracts passed under ordinary commercial conditions; and that, in particular, it will not take, nor allow to be taken, any measure which would result in deliveries being unobtainable under ordinary commercial conditions." As time goes on, deliveries in kind give promise of approaching more and more nearly to the quality of commercial transactions, and this, in the long run, should greatly help to test their economic value in the transfer of reparation payments, from the point of view of the receiving countries as well as of Germany herself.

c. The Reparation Recovery Acts.

The previous Report set forth in detail the new arrangements made during the first months of the operation of the Plan for the purpose of bringing the administration of the British and French Reparation Recovery Acts into harmony with the general provisions of the Plan, and assuring to the Transfer Committee the full control over Reparation Recovery Act payments contemplated by the Plan. It is unnecessary here to review these arrangements, except to record that they are proving satisfactory in operation and are providing the expected payments. During the first Annuity year, the British Government collected in sterling, through the operation of the Reparation Recovery Act, the equivalent of about 155 million gold marks, and the French Government received, in French francs, the equivalent of about 25 million gold marks.

d. Establishment and maintenance of accounts abroad.

It has been necessary, as stated in the previous Report, to establish and maintain accounts in foreign currencies with various central banks outside of Germany, partly in order to carry out the arrangements made in connection with the British and French Reparation Recovery Acts, and also with a view to facilitating the service of the German External Loan. The Transfer Committee has authorized the Agent General to carry accounts abroad for these purposes, as well as for the general purposes of the Annuity, and the Agent General now has accounts of this character with the Federal Reserve Bank of New York, the Bank of England, and the Banque de France.

IV. The Work of the Commissioners and Trustees.

The several Commissioners and Trustees are presenting reports at this time upon the work in their respective fields, with the exception of the Trustee for the German Railway Bonds who is reserving his report until after the completion of the first fiscal year of the German Railway Company.

a. The Commissioner of the Reichsbank.

The report of the Commissioner of the Reichsbank shows in detail the steps which have been taken in the course of the year to bring into practical effect the provisions of the new Reichsbank law. It also reviews in an interesting way the more important aspects of Reichsbank policy during the year. German currency and credit in their broader relations with the operation of the Plan as a whole are discussed later in this Report in a chapter specially devoted to that subject.

b. The Commissioner for the German Railways.

The report of the Commissioner for the German Railways summarizes the results obtained by the German Railway Company during the first Annuity year, and states that the Company has operated the railways during this period in accordance with the provisions of the Experts' Plan as confirmed by the law and the statutes which created the Company. The Company took over the working of the railways on October 11, 1924, but it was not until November 16, 1924, that it received the lines in the Rhineland and the Ruhr previously operated by the Regie. None the less, the Commissioner reports that on the basis of the provisional figures available for the period of less than eleven months ended August 31, 1925, it appears that operating receipts have exceeded operating expenditures by approximately 765 million reichsmarks, thus confirming the estimates made by the Experts.

The Commissioner calls attention to the fact that the Railway Company has, during the first Annuity year, paid to the Agent General, in accordance with the Plan, the full sum of 200 million gold marks that was payable for the first year on account of its 11 milliards of reparation bonds, and that at the end of this year the Company found itself in position to set aside an additional sum of 130 million gold marks, as contemplated by the Plan, toward the second year's payment on its reparation bonds. Furthermore, the Company's earnings have been such as to permit it to put about 80 million gold marks into the reserve fund established by the statutes of the Company for the purpose of assuring the regular service of the interest and sinking fund on its bonded indebtedness. The Commissioner emphasizes in this connection the important relation which exists, particularly in the second Annuity year, between the operations of the Railway Company and the payment of reparations. In addition to the service of the reparation bonds, which for the second Annuity year amounts to 595 million gold marks, there are 250 million gold marks payable during the year out of the yield of the transport tax, thus making a total of 845 million gold marks arising from the operation of the railways. The payment on account of the transport tax, however, makes no additional burden for the Railway Company, as these collections otherwise would be for the account of the Government of the Reich.

The Commissioner indicates in his report that during the past year substantial salary increases have been granted to employees, and that while passenger rates have been increased to help in meeting the added charges, it has nevertheless been possible to reduce many classes of freight rates in the interest of German economy. The Commissioner also compares the existing passenger and freight tariffs with pre-war rates and with the rates prevalent in other countries with stable currencies. Although the personnel of the Company has been reduced during the year, there has not been a corresponding decrease in staff expenditure because under existing law the result has been merely to transfer many of the discharged personnel from a salary to a pension status. The total burden on the Company for pensions now amounts, according to its official estimates, to about 400 million reichsmarks, or, in other words, almost two-thirds of the full annual service of the Company's 11 milliards of mortgage bonds.

Under the terms of the Plan provision was made for 7 per cent preference shares of the Railway Company to the total nominal value of 2 milliards of gold marks, and it was contemplated that the proceeds of the first 500 millions sold should go to the Government of the Reich, as an offset against the budget contribution and transport tax payment, each amounting to 250 millions of gold marks, which it is called upon to make during the second Annuity year. In view of the interest rates prevailing in Germany and the general situation of the investment market, it has not been possible as yet to offer to the public any of the preference shares. The Commissioner reports that the Railway Company has accordingly made an agreement with the Government of the Reich under which the Company issues to the Government preference shares to the nominal amount of 500,000,000 gold marks, in satisfaction of the Government's claim to the proceeds of sale of the first 500 millions. This is subject, moreover, to the right of the Company to reobtain possession of the shares within a period of five years for the purpose of selling them to the public. The Company has also transferred to the Reich preference shares to a nominal value of 124 million gold marks, at the price of 120 million reichsmarks, thereby cancelling an old debt amounting to 82 million reichsmarks and receiving in cash 38 millions for the purpose of capital expenditure.

Another matter of interest to the operation of the Plan as a whole to which the Commissioner refers in his report, is the fact that up to this time at least the Railway Company has carried most of its current funds on deposit with an institution known as the Verkehrs-Kreditbank. The Experts' Plan provided, in the Annex relating to the Railway Company, that the bank account of the Company should be carried with the reconstituted Reichsbank. The Organising Committee, however, left this provision out of the railway law, although providing specifically for the payment of the service of the reparation bonds and the transport tax contribution into the Agent General's account with the Reichsbank. The Committee indicated in its report that this was done in order to leave the Railway Company free to make its own banking arrangements. The railway law, as thus recommended by the Organising Committee, was approved by the Reparation Commission and duly adopted by the German Government. None the less, it is open to question whether it is wise policy for the Railway Company to use as practically its sole depositary a bank which is 75 per cent

owned by the Company itself and whose capital of 4 million reichsmarks is quite disproportionate to the volume of business which it is called upon to transact. It would seem that good business practice would require more independent banking arrangements, and should ultimately lead the Railway Company to carry its balances more largely with the Reichsbank itself, at least to the extent of its statutory reserve funds. Further references to the Verkehrs-Kreditbank appear below in the chapter on German currency and credit.

c. The Commissioner of Controlled Revenues.

The report of the Commissioner of Controlled Revenues shows that effective control of the assigned revenues, that is to say, the customs duties, the taxes on tobacco, beer and sugar, and the net return from the alcohol monopoly, commenced on October 1, 1924, and has continued as contemplated by the Control Protocol. It shows further that during the eleven months of the first Annuity year which followed the institution of the control, the average monthly receipts were about 144 million reichsmarks, which would be at the rate of about 1,728 million reichsmarks for a full twelve months period. This sum compares favorably with the 1,250 millions of gold marks which the Plan contemplates as the budget contribution in a standard year. It is interesting, also, to observe that the receipts from the assigned revenues have considerably exceeded the budget estimates of the German Government, and if continued at their present rate may lead to supplemental contributions to the Annuity in the third and fourth years.

The receipts from the assigned revenues during the first year have been currently released to the German Government by the Commissioner, inasmuch as the Plan does not provide for the withholding of the revenues on account of any budgetary contribution until the third Annuity year. A budgetary contribution of 250 million gold marks is, in fact, payable during the second Annuity year, but under the terms of the Plan it was contemplated that the German Government might finance this contribution either out of the sale of preference shares of the Railway Company or by an appropriate internal loan, and the London Agreement accordingly made no provision for withholding it currently out of the revenues. In the third year the amount payable is 110 million gold marks, subject to increase or decrease, as provided by the Plan, in accordance with whether the total yield of the assigned revenues exceeds or falls short of 1 milliard gold marks. Even before the third year, however, the receipts of the assigned revenues may be withheld, if necessary, to make good any deficit in the service of the railway or industrial bonds.

The report of the Commissioner summarizes the changes which have been made in the rates of the assigned revenues during the period under review, and shows the basis on which his consent to these changes has been given.

d. The Trustee for the German Railway Bonds.

The Trustee's report will appear later, after the completion of the first full fiscal year of the German Railway Company on December 31, 1925.

It has not been possible up to this time to offer to the public any portion of the 11 milliard gold marks of reparation bonds issued under the Plan by the German Railway Company, and it is still too early

to make definite plans in this regard. The attitude of the Transfer Committee in the matter has already been indicated in the first Report, and it can probably best be stated by quoting again the resolution unanimously adopted by the Committee at its meeting in April, 1925, as follows:

"The Committee appreciates the importance of the views entertained by the Trustee for the German Railway Bonds as to the desirability of putting these bonds on an investment basis and selling them in so far as possible on the investment markets of the world in accordance with the contemplation of the Experts' Plan. The Committee is of the opinion, however, that as a practical matter the prospects for the sale of the bonds will depend primarily upon their intrinsic merits, and will be determined by the credit of the German Railway Company, its record of operation and earnings, and the general record which is established with respect to the stability of Germany and the progress of the Experts' Plan. These are questions of fact on which the investment markets will have to form their own judgment in due time. Whenever an opportune time arrives for selling the bonds the Committee will be glad to consider the question further in co-operation with the Trustee, having due regard to the responsibilities entrusted to it in connection with the Experts' Plan and the flotation of the German External Loan, 1924."

c. The Trustee for the German Industrial Debentures.

The report of the Trustee for the German Industrial Debentures outlines the progress made since February 28, 1925, in the administration of the law creating the mortgage charge of 5 milliard gold marks upon German industry. The Trustee points out that although the enterprises subject to the charge had an absolute right, prior to August 31, 1925, to redeem the debentures which they have given, either in whole or in part, no concern as yet has availed itself of this privilege. This result is not unnatural, in view of the high rates for credit prevailing in Germany and the other difficulties confronting German industry during this period. The right of redemption, moreover, remains so long as the Trustee has not disposed of the debentures. The Trustee also describes the arrangements made for the issue of the 500 million gold marks of individual negotiable debentures, as contemplated by the Plan.

The Plan did not call for any payments on account of the industrial debentures during the first Annuity year, but during the second year the sum of 125 million gold marks becomes payable in two equal instalments, on April 1 and August 25, 1926. The amount payable in a standard year will be 300 million gold marks, representing interest at the rate of 5 per cent on the total of 5 milliards plus amortization at the rate of 1 per cent. The report of the Trustee indicates that according to official estimates the value of the "business capital" (Betriebsvermögen) of the German concerns subject to the industrial charge is approximately 32 milliard gold marks, so that the annual payment of 300 million gold marks in a standard year would amount to rather less than 1 per cent of the total investment in these undertakings. The Trustee estimates that this burden will be reduced by about one-third as a result of legislation requiring contribution from other classes of concerns not directly subject to the industrial charge.

V. The German Budget.

Germany has succeeded in the first year of the operation of the Experts' Plan in maintaining a balanced budget. The accounts for the financial year 1924-25 showed a considerable margin of receipts over expenditures, and the indications are that for the year 1925-26 the budget is also in equilibrium. The Plan has thus accomplished one of its essential preliminary objects, and the results attained have, in fact, materially exceeded the expectations of the Experts.

a. The budget of the Reich for the financial year 1924-25.

The financial year 1924-25 came to an end on March 31, 1925, but it was not until four months afterward, on August 10, 1925, that the budget for the year was definitely approved by the Reichstag. Even now, on November 30, 1925, the full accounts for the year are not yet available, and it is correspondingly difficult to make an intelligent analysis of the year's results.

The first Report of the Agent General presented tentative figures for the year 1924-25 on the basis of the information then available. The information now at hand indicates that the figures then given are correct within a very small margin of error, and that the actual surplus of receipts over expenditure on March 31, 1925, amounted to about 892 million reichsmarks. In addition there has been established a working fund of 281.9 millions of reichsmarks out of revenues derived from coinage and other incidental sources, which do not appear in the reported receipts of the year. Out of the reported surplus of 892 millions the Reichstag has voted 395.6 millions for expenditures not included in the budget estimates. The remaining 496.4 millions became available for the purposes of the financial year 1925-26, and to constitute a working fund for the Government of the Reich.

(1) *Receipts.* — As a matter of record the following comparison is shown between the original budget estimates of receipts and the actual receipts for the year 1924-25 as now reported by the Finance Ministry:

(In millions of reichsmarks)

Financial year ended March 31, 1925	Combined budget estimates	Actual receipts
I. Taxes on incomes, sales, transport, etc.:		
(a) Recurring	4,103.9	5,665.6
(b) Non-recurring	36.0	79.0
II. Customs, and taxes on tobacco, beer, etc.:		
(a) Assigned	1,017.0	1,437.4
(b) Other	82.7	123.0
III. Miscellaneous	—	7.6
IV. Supplementary estimate of additional receipts on above accounts	653.5	—
Totals	5,897.2	7,332.6

The actual receipts for the year thus exceeded the original budget estimates by 2,078.9 million reichsmarks, or over 39 per cent, and even exceeded the combined estimates, including the supplementary estimate, by more than 1,425 million reichsmarks, that is to say, by about 24 per cent. The detail of the figures constituting the supplementary estimates is not available, but it is interesting to show items I and II of the original estimates in detail, in comparison with the actual results.

The following table gives a further analysis of the receipts from the taxes on incomes, sales, transport, etc., (item I), as compared with the original estimates:

(In millions of reichsmarks)

Financial year ended March 31, 1925	Budget estimates	Actual receipts	Surplus (+) Deficit (—)
Income tax:			
(a) On wages		1,331.6	
(b) On income from capital		19.2	
(c) On other forms of income		862.5	
Total for income tax	1,344.0	2,213.3	+ 869.3
Corporation tax	144.0	313.9	+ 169.9
Tax on real and personal property	376.0	498.9	+ 122.9
Turnover tax:			
(a) Ordinary	1,260.0	1,798.5	+ 538.5
(b) Extraordinary (luxury)	180.0	119.3	— 60.7
Tax on bourse transactions	150.0	112.8	— 37.2
Transport tax	230.0	312.6	+ 82.6
Other taxes	424.0	316.3	— 107.7
Totals	4,108.0	5,685.6	+ 1,577.6

A similar comparison of the original estimates with the actual receipts from the customs and the other assigned revenues (item II), shows as follows:

(In millions of reichsmarks)

Financial year ended March 31, 1925	Budget estimates	Actual receipts	Surplus (+) Deficit (—)
Customs	160	356.6	+ 196.6
Tobacco tax	360	513.7	+ 153.7
Beer tax	126	196.5	+ 70.5
Sugar tax	231	219.1	— 11.9
Spirits monopoly	140	141.4	+ 1.4
Totals	1,017	1,427.4	+ 410.4

(2) *Expenditures.* — Owing partly to the practice of keeping open the expenditure accounts, and also to delays in the presentation of the official figures, it is still impossible to give definitive figures for the expenditures of the financial year 1924—25, though it ended exactly

eight months ago. Some preliminary figures were given in the previous Report, and the only better figures now available are those for the main divisions of the budget.

The total expenditures of the Reich for the year under the three main divisions of the budget, as published by the Finance Ministry, were as follows:

	(In millions of reichsmarks)
Ordinary and extraordinary budgets	3,551.2
Execution of the Peace Treaty	1,187.4
Payments to States and Communes	2.767.2
Total...	7,505.8

The details of the expenditure under the ordinary and extraordinary budgets have not yet been published and are therefore unavailable. In order to get an indication of the principal classes of expenditure it is necessary to go to the original and supplemental budget estimates, though these together exceed by about 235 million reichsmarks the expenditures thus far reported. The combined estimates for expenditures falling under the ordinary and extraordinary budgets were as follows:

	(In millions of reichsmarks)
General administration of the Reich	736.8
Public works	164.7
Social expenditure	500.5
Justice	6.8
Subsidies to the States (for police, social assistance, etc.)	306.2
Military pensions	848.9
Civil pensions	45.4
Army and Navy	461.4
Public debt	279.1
Loan to German Railway Company	120.0
Miscellaneous	316.5
Total...	3,786.3

The foregoing estimates are to be taken only as giving a rough indication of the actual expenditures on these accounts. It is to be hoped that the figures for the expenditures themselves will soon be published, and it may then be possible to make a further analysis, and at the same time to get a basis of comparison for future years. From the Report of the Commissioner for the German Railways, it appears, however, that in settlement of the above loan to the Railway Company of 120 million reichsmarks the Reich has received preference shares of the Railway Company having a nominal value of 124 million gold marks.

The expenditures under the budget for the execution of the Peace Treaty are stated as having amounted to 1,187.4 millions of reichsmarks. It is to be specially noted, however, that during the financial year 1924—25 there were no expenditures chargeable to the German budget on account of the Annuities under the Experts' Plan. The financial year 1924—25 included, it is true, the first seven months of the operation of the Plan, and thus overlapped with the first Annuity year. But the Plan expressly provided that there should be no charge on the German

budget during the first year, and the entire first Annuity was otherwise provided, four-fifths of it coming from the German External Loan and one-fifth from the interest on the German Railway bonds. There were certain advances from the German Government during the transition period, for financing essential payments and deliveries before the proceeds of the loan became available, but as already explained in the previous Report these were all reimbursed in due course by the Agent General and resulted in no burden on the German budget.

The expenditures carried in the 1924—25 budget for the execution of the Peace Treaty thus represented either payments on account of charges accruing before September 1, 1924, or payments made by the German Government on obligations already outstanding or assumed for one reason or another by the Government itself. The details of these various expenditures, as tentatively stated by the Finance Ministry, are as follows:

	(In millions of reichsmarks)	
Ruhr fund, for the payment of compensation to industrialists and private individuals		623.2
Compensation for losses on account of property sequestrated and liquidated in foreign countries		195.4
Compensation to the States for the loss of productive State assets		70.5
Reimbursement to the Reichsbank of a reparation payment made by it in 1923 in respect of Belgian bonds		49.1
Expenses incurred through the Ruhr occupation		48.3
Costs of Armies of Occupation and of the Inter-Allied Rhineland High Commission		227.1
Expenses of Commissions of Control		5.6
Miscellaneous items		97.4
Grand total		1,316.6
Less:		
Reimbursement made by the Agent General	105.8	
Miscellaneous receipts	23.4	129.2
Net total on account of execution of Peace Treaty, incurred prior to Experts' Plan		1,187.4

The third main division of the year's expenditures covers payments by the Reich to the States and Communes, on account of their share in various taxes collected by the Reich. These amounted during the year to an aggregate of 2,767.2 millions of reichsmarks, as compared with the original budget estimates of 1,861.6 millions, and the estimate of 2,744.6 millions given in the previous Report. In other words, the States and Communes received during the year 905.6 millions of reichsmarks more than had been anticipated in the original estimates, or an increase of nearly 50 per cent over and above the estimates. This meant, from the point of view of the States and Communes, a corresponding increase over the amounts in contemplation when they framed their own budgets. In addition, it is to be noted that the ordinary and extraordinary budgets of the Reich carried estimates of 306.2 millions of reichsmarks for subsidies to the States for various objects, such as police and social assistance.

b. The budget of the Reich for the financial year 1925-26.

The financial year 1925-26 extends from April 1, 1925, to March 31, 1926, and though eight months of the year have already elapsed, the budget for the year has not yet been voted by the Reichstag. Only tentative figures, therefore, are available, and these vary considerably from the preliminary figures given in the previous Report. The lack of adequate information makes analysis difficult. Generally speaking, however, it seems to be clear from the information at hand that the budget for the year remains safely balanced.

The latest estimates of the Government, as furnished by the Finance Ministry, are as follows:

(In millions of reichsmarks)

Estimated receipts, 1925-26	
Taxes on incomes, sales, transport, etc.,	4,911
Customs, and taxes on tobacco, beer, etc.,	1,859.4
Proceeds from sale of preference shares of German Railway Company	291.7
Administrative revenue	174.
Profits by way of seigniorage on the coinage	233.5
Surplus brought from 1924-25	216.4
Total estimated receipts	7,686.0

(In millions of reichsmarks)

Estimated expenditures, 1925-26		
Payments to the States and Communes		2,496.2
General expenses of the Reich, ordinary and extraordinary ...		4,571.8
Expenditures arising out of the War		427.2
Cost of Coinage		8.5
Reparation payments:		
(a) Transport tax	145.83	
(b) Budgetary contribution	145.83	291.7
Total estimated expenditures		7,795.4

These figures summarize the Government's latest proposals, but must be taken as subject to change until actually adopted by the Reichstag.

The financial year 1925—26 includes seven months of the second Annuity year, and it will be noted that the estimated expenditures for the year show a total of 291.7 million reichsmarks under the heading of reparation payments. This charge upon the 1925—26 budget arises from (*a*) estimated transport tax payments amounting to 145.83 million reichsmarks for the seven months' period, and (*b*) a budgetary contribution of 145.83 million reichsmarks, covering the same period of time. It will be recalled that the Experts' Plan provided in the second Annuity

year for a budgetary contribution of 250 million gold marks, and for another payment in the same amount out of the yield of the transport tax. At the same time the Plan assumed that before the end of the second Annuity year the German Government would be in effective possession of 500 million gold marks as its share of the proceeds of sale of the preference shares of the German Railway Company. As already indicated in connection with the report of the Commissioner for the German Railways, it has not as yet been possible to issue any of these preference shares to the public, but the Company has arranged to issue directly to the Government of the Reich preference shares to the nominal amount of 500 million gold marks in satisfaction of the Government's claim to the proceeds. The item appearing in the above statement of estimated receipts, therefore, as proceeds from the sale of preference shares of the German Railway Company, does not represent an actual cash receipt but rather the receipt of sevent welfths of the 500 millions of shares themselves. As against this receipt, there is presumably an offsetting item in the same amount under the estimated general expenses.

The estimates on their face would indicate a deficit for the current year of about 326 million reichsmarks, but as against this the Government proposes to apply out of the 1924-25 surplus about 216 millions of reichsmarks, which would reduce the anticipated deficit to about 110 millions. In analyzing the foregoing estimates it is proper also to consider the actual receipts of the Reich from taxation during the first six months of the year. The figures for this period have recently been published, and as reported in the Reichsanzeiger show actual receipts from taxation during the six months ended September 30, 1925, amounting to over 3,584 millions of reichsmarks. The tax receipts for the entire year, according to the estimates, are expected to reach about 6,770 millions of reichsmarks, or at the rate of about 3,385 millions for each half year. It is not to be anticipated, of course, that the tax receipts will divide themselves equally over the two half years, but it is significant, at least, to find that the actual collections for the first half year have exceeded one-half of the year's estimated collections by about 200 million reichsmarks. It is true that changes have recently been made in the tax laws which may result in reduced collections during the later months of the year, and that alterations have also been made in the basis upon which the States and Communes share in the proceeds of certain taxes. These changes make it improbable that the surplus of actual receipts over estimates will be as large during the second half year as it has been during the first. But it is hardly likely, on the other hand, that collections for the second half year will fall below the estimates in an amount sufficient to overcome the surplus already realized. It seems reasonable, therefore, to expect the final accounts to show the budget for the current year balanced by a safe margin, unless, of course, expenditures should again be increased beyond the budget estimates or there should be a decline in revenue exceeding all expectations.

c. General observations on the budget of the Reich.

The figures for the financial year 1924-25, even in their present incomplete state, and the estimates for the financial year 1925-26, tentative as they are, suggest a number of general observations on the

German budget which have a bearing not only on the operation of the Experts' Plan but also on the progress of the German economy itself. To an important extent these observations raise fundamental questions of public finance, and it is encouraging to find them already the subject of wide public discussion in Germany.

(1) *The necessity of economy.* There is little room for doubt that the very success of the Government of the Reich in balancing the budget for the financial year 1924-25, and the extraordinary surplus of revenue that resulted, have led to expenditures which were not strictly necessary and which could have been avoided if the finances of the Reich had been in a less favorable position. To some extent, as pointed out in the previous Report, the Government has naturally and properly used the surplus for the liquidation of outstanding liabilities of various kinds, including the retirement of some of the public debt. But the opportunities in this direction are limited, because of the almost complete absence of floating debt. At the same time the existence of the surplus has led to unexpectedly large expenditures in other directions, and has made it difficult to resist the pressure from political sources for expenditures not contemplated by the regular budget. The budget estimates for 1924—25, for example, when submitted in November, 1924, as stated in the previous Report, indicated total expenditures on all accounts, including payments to the States and Communes, of about 5,860 million reichsmarks. As against these estimates the actual expenditures during the year turned out to be about 7,506 million reichsmarks, or an increase of about 1,646 million reichsmarks. Another interesting comparison arises from the estimates for 1924-25 that were submitted to the First Committee of Experts in the first few months of 1924, in connection with the preparation of the Experts' Plan. These estimates, of course, were prepared some time before the beginning of the financial year, and in the midst of a period of great pressure and uncertainty. It is interesting, however, to see that, as compared with the 5,712 million marks of expenditures proposed by these estimates, the actual expenditures for the year exceeded the estimates by 1,794 million reichsmarks. The financial year 1925-26 seems to be having a somewhat similar history. The preliminary estimates of the Government, as summarized in the previous Report, indicated total expenditures on all accounts, including payments to the States and Communes, of about 6,818 million reichsmarks, as against the present estimates of 7,796 million reichsmarks, or an increase of 978 million reichsmarks up to this time.

Without attempting to go into the details of expenditure, it is manifest from the experience that has already been had since the period of stabilization that public expenditures generally are showing a dangerous tendency to increase, and this at the very time that the greatest need of the German economy is to have the largest possible share of the national income left in productive channels instead of being withdrawn into increasing fields of Government expenditure. Mounting public expenditures, moreover, call for corresponding public revenues, and thus tend to make increasingly difficult the task of maintaining a balanced budget. There is a danger also that by keeping taxation at unnecessarily high levels the sources of taxation will themselves tend to dry up, owing to the drain on the productive capacity of the country.

Now that the German budget has been definitely balanced, it may safely be said that the greatest financial problem confronting the Government is to bring about better control of public expenditures, and in that connection to accomplish further reform in the field of taxation.

(2) *Payments to the States and Communes.*—The figures already given have shown what a large part the payments to the Staates and Communes play in the budget of the Reich and how necessary it is to introduce a more effective control over them. For the financial year 1924—25 the total payments to the States and Communes on account of their shares in the revenues collected by the Reich amounted to 2,767.2 millions of reichsmarks, as compared with the 1,861.6 millions of reichsmarks carried in the original estimates. In the current financial year the present estimates show total payments of the same character to the amount of 2,496.2 millions of reichsmarks.

The troublesome situation arising from the financial relations existing between the Reich and the States and Communes particularly engaged the attention of the Experts in connection with their analysis of the German budget. The observations which they made in their Report are substantially applicable to the situation which still exists, and are worth quoting, as follows:"

"Although the Reich is charged with the administration of taxes formerly undertaken by the States, it is under obligation to cede the major part of the proceeds of the income tax, for example, to them. The States discharge wholly or in part many of the functions of Government, and there is no clear principle connecting their resources with their obligations."

"When in difficulties they press the Reich for larger subventions (as percentage of the yield of taxation) just as in turn the needy Communes press the States for greater financial aid."

"The situation has hitherto been governed by merely political or administrative opportunism rather than by clear financial principle. The Reich can either yield to the pressure for higher percentages in subvention or ..... can confer upon the States the right to exploit particular fields of taxation for themselves. The check by the States upon the Communes is equally unsatisfactory. It is almost impossible to ascertain the true cost of any of the single functions of Government in view of its division between these three constitutional entities, and in the absence of proper aggregated financial statistics of the States and still more of the Communes."

After some further detailed observations, the Experts' Report went on to state:

"It is clear, however, that in the near future the German Government must take steps to put the relations between the Reich and its component parts on a regular basis which shall ensure that the latter are not a constant drain upon federal resources; the existing hole in the budget must be plugged."

The Experts did not "pretend to be in a position to make detailed recommendations", realising that "the subject is a complicated one

and involves the consideration of social and political factors, many of which have deep roots in historic traditions." Nevertheless, it is clear from the following sentence of their report that they expected reforms to be made in this regard: "Moreover, if our recommendations are accepted in their entirety, self-interest alone may almost confidently be relied upon to force the German Government to make provident arrangements with the States, and it has already given us an assurance that the regime of increased subsidies has come to an end and will not be revived."

The whole question of the financial relations between the Reich and the States and Communes has been a matter for active discussion during the past year, but it cannot be said as yet that much progress has been made in dealing with the situation. A new law on the subject was adopted by the Reichstag in the summer of 1925, but it makes no substantial change in the system, except to modify in some respects the percentages governing the shares of the States and Communes in certain taxes collected by the Reich. The new law, however, does look forward to a revision of the system by the year 1927, and in the meantime authorizes the Finance Ministry of the Reich to require from both the States and Communes classified statistics of their receipts and expenditures.

(3) *Government loans and investments.*— Passing the question of payments to the States and Communes, which is more or less deeply rooted in history, perhaps the most striking tendency which has been disclosed during the first year of operations under the Plan is the increasing practice of extending special credits to industry and agriculture, and of making loans and investments in industry for account of the Government. This has been true to some extent of the Reich and also of the States and Communes. In part, no doubt, it is a phase of the crisis through which the German economy has been passing, and in other respects it suggests the related questions of public funds and public banking institutions. But it has definite significance also from the budget point of view, not only because these loans and investments are constituting a heavy drain on the budgets, but also because of the tendency to handle them outside of the regular budget and, in some instances, without the normal legislative authority.

d. The budgets of the States and Communes.

In order to get a complete view of the German budgetary position it is necessary to take into consideration the budgets of the States and Communes, particularly because of the financial relations existing between them and the Reich.

Information, however, in regard to the budgets of the German States is remarkably incomplete. For the year 1924-25 the information available is so meagre as to be useless for the purpose of drawing any conclusions, though it seems to be clear that most of the States received in this year revenues much in excess of their anticipations and considerably beyond their actual requirements. Much of this was due to the unexpectedly large shares which they received for this year out of the taxes collected by the Reich. Moreover, it was admittedly a difficult time for the making of budgets. The country had just emerged from a period of great disorganization, and it was frequently necessary to proceed

on the basis of rough estimates, both of receipts and payments. No equally convincing reason exists, however, for the failure of the States to publish their accounts within a reasonable time after the close of the financial year.

For the year 1925-26 several budgets, as, for example, the budget of Prussia, have not yet been voted. In other cases the budgets proposed are merely the same as for the previous year. It would be impracticable in any event to examine all of these budgets in detail, but it is worth while to make a brief survey of those of Prussia, Bavaria, Saxony, and Baden, which comprise approximately 85 per cent of the population of Germany.

The following table gives in summary form the available figures for the 1925-26 budgets of these four States:

(In millions of reichsmarks)

Estimated receipts, 1925—26	Prussia	Bavaria	Saxony	Baden
Contributions from the Reich				
Share in taxes collected by the Reich	907.5	142.6	116.5	28.6
Special contributions	178.9	18.5	7.7	5.9
Contributions from the Communes	19.5	3.6	30.7	6.2
Taxes levied by the State	455.0	136.0	76.9	36.4
Net receipts from State undertakings	71.6	45.6	10.6	7.9
Miscellaneous, including fees, fines, etc.	230.0	37.5	44.4	24.9
Totals	1,862.5	383.8	286.8	109.9
Deficits				6.3
	1,862.5	383.8	286.8	116.2

(In millions of reichsmarks)

Estimated expenditures, 1925—26	Prussia	Bavaria	Saxony	Baden
General administration, including pensions	259.7	29.8	54.9	30.4
Police	376.1	46.7	37.7	13.3
Justice	296.1	47.3	32.0	10.9
Education, fine arts, public worship	602.1	172.3	99.2	37.8
Public works	44.2	16.9	27.5	6.4
Social expenditure and public health	127.8	45.3	19.5	10.7
Miscellaneous, largely for technical schools and agricultural establishments	119.2	16.6	15.0	5.5
Subsidies to the Communes	15.0	4.1	—	1.0
Public debt	12.3	4.8	1.0	0.2
Working fund	10.0	—	—	—
Totals	1,862.5	383.8	286.8	116.2

The make-up of the items representing net receipts from various State undertakings, as indicated by the available figures, appears in detail in the following statement:

(In millions of reichsmarks)

State undertaking	Prussia		Bavaria		Saxony		Baden	
	Rev.	Expend.	Rev.	Expend.	Rev.	Expend.	Rev.	Expend.
Domains	20.3	9.9	—	—	1.5	0.6	17.2	9.5
Forests	163.1	110.7	79.0	37.9	13.6	8.7		
Mines	4.5	—	0.2	—	0.5	—		
State Bank, coinage, official gazette, etc.	8.2	3.9	1.1	0.5	0.9	0.2	0.5	0.3
Industrial undertakings, Water supply, electricity, Tramways, etc.	—	—	5.7	2.0	3.9	0.3		
Totals	196.1	124.5	86.0	40.4	20.4	9.8	17.7	9.8

As for the budgets of the Communes, information is incomplete and difficult to obtain on a current basis. Like the States, the municipalities have received large payments out of the taxes collected by the Reich, usually without regard to their actual needs. Some communes, accordingly, have found themselves over-supplied with funds; others have been in financial distress. The former have taken advantage of their unexpected affluence, in many cases, to carry out public works of an unproductive nature, such as parks, swimming-pools, athletic grounds, etc., or to make investments in private undertakings.

Some improvement may, however, be expected from the authority given to the Finance Ministry of the Reich, in the new law settling the financial relations between the Reich and the States and Communes, to require them to submit classified statistics as to their receipts and expenditures.

VI. The German Public Debt.

The most significant thing about the public debt of Germany is the extent to which the internal debt, not only of the Reich but also of the States and Communes, was wiped out by the inflation. By this means, Germany had become a country almost without internal debt. By the time of stabilization, for example, the old paper mark debt of the Reich had a gold value of less than 1,000 reichsmarks, and the paper mark debts of the States and Communes had practically disappeared. The result was to leave the reparation obligations of Germany under the Treaty of Versailles as the principal outstanding form of public debt, and to put the Government of the Reich in the position of having an unprecedentedly large external obligation to meet, but without the heavy liabilities on account of internal debt that remained in most of the other countries engaged in the war.

This was substantially the situation as the Experts found it at the time of their Report, and it had an important bearing on their recom-

mendations for dealing with the payment of reparations. In its various relations the position of the German public debt has also been a most significant factor during the period of stabilization and in the first year of the operation of the Plan.

The period of stabilization, as a matter of fact, accounts for most of the present public debt of the Reich. This period began in the last quarter of 1923, and it proved necessary in the process for the Reich to incur certain obligations on a gold basis. Even before then, it had had to borrow some money in foreign currencies, particularly for the purchase of foodstuffs. In addition, the Experts' Plan itself provided for an international loan to Germany, for the double purpose of providing the necessary reserves for the reconstituted Reichsbank and covering the requirements of the preliminary period of rehabilitation. This took the form of the German External Loan, which was issued in the autumn of 1924, in various foreign currencies, in an amount calculated to produce about 800,000,000 gold marks, at the then prevailing rates of exchange. Under the terms of the Plan, the service of this loan is a first charge on the Annuities provided for reparation purposes, so that it does not constitute any additional charge on the German budget. As will be seen from the detailed statement given below, the principal items in the present public debt of the Reich, apart from the German External Loan, consist of obligations to the Rentenbank and the Reichsbank, which have now been placed in funded form and are being gradually liquidated. Following stabilization, and since the last Report, laws have also been passed, as further set forth below, for the revalorization of the old paper mark loans of the Reich and of the States and Communes. But the aggregate value of the revalued obligations is not yet ascertainable, and the liability itself is contingent, principally on the discharge of the reparation liabilities of the Reich.

The result has been to put not only the Reich, but also the States and Communes, in the unique position of having practically no floating debt, and but little internal debt of any kind. This has meant, in effect, a heavy loss for holders of the old paper mark obligations and it has involved, as inflation always does, taxation of the severest kind on many classes of people. But, at the same time, it has created an exceptional situation for both the Reich Government and the Governments of the States and Communes. By freeing them of the bulk of their internal obligations it has very largely removed the normal problem of debt liquidation and has given them instead the reverse problem of so managing their affairs as to avoid undue accumulations of funds in the hands of public authorities. The significance of this situation, and the extent to which the problem has figured in the first year's operation of the Plan, are discussed elsewhere in this Report, particularly in connection with currency and credit conditions.

a. Statement of the public debt of the Reich.

In the previous Report the official figures were given for the public debt of the Reich on March 31, 1925, that is to say, at the end of the financial year 1924-25. The figures are now available for September 30, 1925, at the end of the first half of the financial year 1925-26, and, according to the official statement published by the German

Government, show the public debt of the Reich on that date as amounting to 2,552.3 millions of reichsmarks. This indicates a reduction of the public debt during the six months' period of 263.3 millions of reichsmarks.

The following table shows the debt in detail, with comparative figures for March 31, 1925:

	March 31, 1925	Sept. 30, 1925
	(In millions of reichsmarks)	
I. Treasury Bonds and Bills		
Dollar Loan, issued under law of March 2, 1923, redeemable April 15, 1926. Debt assumed by the Reichsbank, and now fully retired	—	—
Gold Loan of 1932, issued under law of June 4, 1923, to guarantee issue of fixed value emergency currency (Notgeld). Redeemable December 1, 1932, but largely repurchased in 1924	1.4	1.3
Gold Loan of 1935, issued under law of August 14, 1923; offered in the amount of 500,000,000 gold marks, but largely redeemed through purchases in the open market	23.0	20.0
"K" Bonds, issued under law of July 11, 1923, to provide compensation to German nationals for war damage	1.4	1.4
"E" Bonds, issued under decree of February 9, 1924, in exchange for "K" bonds and also to provide compensation to German nationals for certain deliveries in kind and for Reparation Recovery Act deductions on German exports to Great Britain. Bear no interest, but repayable in four semi-annual instalments beginning October 1, 1924, at 100, 105, 110 and 115 respectively	276.0	171.0
Reichsmark Bills, short term treasury obligations discounted in the market	30.0	—
	331.8	193.7
II. Bank Loans		
From the Rentenbank, granted under decree of October 15, 1923, to a maximum amount of 1,200 million rentenmarks	1,186.7	1,108.8
From the Reichsbank, contracted in the course of efforts to support the mark at the beginning of 1923	226.5	226.5
	1,413.2	1,335.3
III. Miscellaneous		
Guaranties given by the Reich, chiefly for purchases of food supplies during or after the war, and expressed for the most part in foreign currencies	105.2	62.5
"Meliorationskredit", representing obligations arising out of credits granted by the Reich to agriculturists	9.0	12.0
Other obligations	18.6	18.6
	132.8	93.1
IV. German External Loan, 1924		
Issued in conformity with the provisions of the Experts' Plan, and under the terms of the General Bond executed by the Government of the Reich on October 10, 1924. Expressed in foreign currencies, which, for the purposes of this statement, are converted at the rates of exchange prevailing on March 31 and September 30, 1925, respectively	937.8	930.2
Totals	2,815.6	2,552.3

The item of guaranties which appears in the foregoing statement under title III, included as of March 31, 1925, liabilities amounting to over 57 million Norwegian kroner and about 46 million Dutch florins. In the intervening period the entire liability in Norwegian kroner has been retired, in pursuance of a settlement made between the German and Norwegian Governments.

The figures given for the German External Loan, 1924, show the progress of debt reduction by means of payments out of the Annuity, as well as the increased reichsmark liability resulting from the appreciation which has taken place since the Loan was issued in the foreign currencies in which it is expressed. This appreciation has been primarily in the sterling *tranches* of the Loan, accompanying the return to the gold standard in Great Britain.

b. Revaluation of paper mark loans of the Reich.

The statements of the public debt of the Reich, as published by the Government, do not as yet show the obligations assumed by way of revalorization of the old paper mark loans. By virtue of the law of July 16, 1925, however, the German Government has undertaken to revalue these paper mark debts, and to issue what is called Loan Liquidation Debt in their stead. Generally speaking, it is clear that the new obligations issued by way of revaluation are subordinate to the reparation liabilities. The revaluation law itself recognises this, and provides generally that holders of the Loan Liquidation Debt cannot demand repayment of the capital thereof nor interest thereon until such time as Germany's reparation liabilities have been met. The liability on the revalued obligations is also contingent in other respects, as provided by the law. The law gives preferential treatment to "old" holders, that is to say, to those who acquired their holdings before July 1, 1920, and it provides for special benefits also to small holders, to holders in necessitous circumstances, and to religious and charitable associations. The so-called "old" holders, for example, are entitled to participate in drawing rights for amortization purposes and are further entitled to receive a premium of about four times the nominal value of their Loan Liquidation Debt. The rate of revaluation varies for different classes of paper mark debts, in accordance with a schedule set forth in the law.

It is practically impossible to determine the present value of the obligations to be issued by the Reich under the revaluation law, in view of the various conditions and contingencies affecting their ultimate payment. It is even impossible at this time to determine the nominal amount of the contingent liability created, for the reason that the various classes of claims for conversion of the paper mark debt have not yet been received and considered by the proper authorities. "Old" holders have until February 28, 1926, to establish their claims, "old" holders abroad have a still longer time, and no time-limit has yet been fixed for applications by other classes of holders. Until the various claims are received and determined there is no means of ascertaining definitely even the nominal amount of the revalorized obligations. The best information now available comes from the figures given by the Finance Minister of the Reich to the Reichstag at the time of the debate on the law. On this basis, it may be estimated that the nominal value

of the revalorized debt will amount to about 1,800 million reichsmarks, made up substantially as follows:

	Old paper mark debt (in paper marks)	Debt assumed by way of revalorization (in reichsmarks)
Pre-war Debt, consisting of debt of the Reich and debts of the federal States taken over by the Reich, aggregating approximately	19,000,000,000	1,750,000,000
War Debts, approximately	51,000,000,000	
1919 Premium Loan	3,840,000,000	64,000,000
1923 "K" Bonds	4,394,000,000,000	6,575,000
1924 "K" Bonds	818,501,000,000,000	409,000
Non-interest bearing Treasury Bonds of various issues	20,866,500,000	—
Estimated nominal total of revalorized debt		1,820,984,000

These figures are all estimated, and must be taken with reserve, as being subject to change in many respects.

Somewhat more definite figures are available to show the probable annual charge on the Reich for the service of the revalued obligations. The Government's estimates of the total charge for the first year are as follows:

	(In millions of reichsmarks)
Non-recurrent payment to small holders	150
Annuity to cover redemption through drawings	125
Life annuity to holders in necessitous circumstances	64
Indemnity to religious and charitable associations	10
Total for the first year	349

As will be noticed, the payment of 150 million reichsmarks for small holders is non-recurrent, and the annual charge in succeeding years will be reduced by this amount. The life annuities may also be expected to decrease each year, with reductions in the numbers of holders entitled to receive them and the indemnity to religious and charitable associations is payable only during a limited period. The amount required to cover drawings, when once established, will, however, be practically constant, as under the law the revalorized debt of the "old" holders is to be amortized in thirty years by annual drawings from January 1, 1926, onwards, and will bear interest at the rate of $4\,^1/_2$ per cent per annum from that date until redemption.

c. Public debts of the States and Communes.

There are no adequate figures available to show the present status of the debts of the various States and Communes, but, generally

speaking, their internal debt, like that of the Reich, had practically disappeared as a result of the inflation. Since stabilization there have been two principal changes affecting the public debts of the States and Communes. The first of these has resulted from the terms of the same revaluation law of July 16, 1925, which provided for the revaluation of the old paper mark debts of the Reich. This law provided in its second title for the revaluation of the old paper mark debts of the States and Communes on substantially the same basis, and the States and Communes have, in consequence, been passing appropriate legislation in their own legislative bodies for carrying the general revalorization scheme into effect. It is still impossible to give any definite figures for the total nominal value of the obligations thus assumed, but the aggregate amount involved is relatively small as compared with the revaluation obligations undertaken by the Reich.

The other principal change has come about through the loans that have been obtained abroad by the various States and Communes since the adoption of the Experts' Plan. No official figures are available to show the total of these foreign borrowings. The following table, however, compiles the best information at hand, and is believed to be substantially complete to the middle of November, 1925. The amounts given show the capital value of the obligations, and conversions into reichsmarks have been made at the nearest round figures to gold parity.

	Amount	
	Dollars	Reichsmarks
	(in thousands)	
I. Loans of States		
1. Bavaria.		
6½ % Dollar loan issued in September, 1925, in serial form at varying issue prices (100 % to 88½ %) for the construction of the Rhine-Main-Danube-Canal and hydro-electric works. Redeemable in 25 years with power to repay at par after five years	15,000	63,000
2. Oldenburg.		
7 % Dollar loan issued in November, 1925, in serial form at varying issue prices (100½ % to 93½ %) for canal construction and electricity works. Redeemable in 20 years with power to repay after five years	3,000	12,600
3. Bremen.		
7 % Dollar loan (first *tranche*) issued in September, 1925, at 94¾ % for harbor works and for repayment of short term loan of 5 million dollars falling due in December, 1925. Redeemable in ten years	10,000	42,000
Second *tranche* issued in November, 1925, at 95¾ %	5,000	21,000
	33,000	138,600

	Amount	
	Dollars	Reichsmarks
	(in thousands)	
II. Municipal or Communal Loans		
1. Berlin.		
6½ % Dollar loan issued in July, 1925, at 89 % for the construction of electricity works and Nord-Süd underground railway and for the repayment of short term loan of 3 million dollars falling due in November, 1925. Redeemable in 25 years with power to repay after five years	15,000	63,000
2. Cologne.		
6½ % Dollar loan issued in July, 1925, at 87½ % for harbor works and water, gas and electricity works and for repayment of short term loan of 2 million Dollars due in November, 1925. Redeemable in 25 years with power to repay after five years	10,000	42,000
3. Munich.		
7 % Dollar loan issued in August, 1925, in serial form at varying issue prices (100 % to 93½ %) for the construction of electricity works, tramways, warehouses, public market and for the purchase of factories of the Deutsche Werke. Redeemable up to 20 years. Bonds outstanding in 1930 redeemable at 103 %	8,700	36,540
4. Heidelberg.		
7½ % Dollar loan issued in October, 1925, at 98½ % for water, gas and electricity undertakings. Redeemable in 25 years with power to repay from 1927 at 105 %	1,500	6,300
5. Düsseldorf.		
7 % Dollar loan issued in October, 1925, in serial form at varying issue prices (100 % to 93⅞ %) for the construction of electrical and water works. Redeemable in 20 years with power to repay after five years at 103 %	1,750	7,350
6. Württemberg municipal group (Stuttgart, etc.).		
7 % Dollar loan issued in October, 1925, in serial form at varying issue prices (100.48 % to 93.90 %) for the development of electricity, gas and water plants and tramways. Redeemable in 20 years with power to repay from 1930 at 103 %	8,400	35,280
7. Hesse municipal group (Mainz, Offenbach, etc.).		
7 % Dollar loan issued in the name of the Kommunale Landesbank in November, 1925, in serial form at varying issue prices (100 % to 93⅛ %) for the development of municipal undertakings. Redeemable in 20 years with power to repay after 5 years at 103 %	3,600	15,120
	48,950	205,590

	Amount	
	Dollars	Reichsmarks
	(in thousands)	
III. Loans of Public and Semi-Public Undertakings		
1. Sächsische Werke.		
7 % Dollar loan issued in February, 1925, at 92 % for electricity undertakings. Redeemable in 20 years with power to repay from 1930 to 1935 at 105 % and thereafter at par	15,000	63,000
2. Rentenbank-Kredit-Anstalt.		
7 % Dollar loan issued in September, 1925, at 93 % for relending to agriculture. Redeemable in 25 years	25,000	105,000
3. Rhein-Main-Donau-A.-G. (Semi-public.)		
7 % Dollar loan issued in October, 1925, at 96 % for canal construction and electricity production. Redeemable in 25 years at 102½ % with power to repay after five years at 105 %.	6,000	25,200
4. Rheinisch-Westfälisches Elektrizitätswerk A.-G.		
7 % Dollar loan issued in November, 1925, at 94 % for the development of electricity production in the Ruhr Valley. Redeemable in 25 years with power to repay prior to 1935 at 105 % and thereafter at 102 %	10,000	42,000
5. Hamburgische Elektrizitätswerke A.-G.		
7 % Dollar debentures issued in November, 1925, at 95½ %. Redeemable in 10 years with power to repay from 1930 at 103 %	4,000	16,800
6. Elektrowerke A.-G.		
6½ % Dollar loan issued in March, 1925, at 87 % for the development of electricity production. The company is the property of the German government. Redeemable in 25 years	5,000	21,000
7. Berliner Städtische Elektrizitätswerke A.-G.		
7 % Swiss Franc loan issued in November, 1925, at 95 % for construction of the Rummelsburg Electricity Power Station. Redeemable in 15 years.....	S.Frs. 30,000	24,300
	$ 65,000	273,000
	S.Frs. 30,000	24,300
Totals	$ 146,950 S.Frs. 30,000	641,490

Reference is made elsewhere, in the chapter about German currency and credit, to the relation of these foreign loans to the credit situation within Germany and to the credit policy of the Reichsbank.

VII. German Currency and Credit.

It was one of the primary objects of the Experts' Plan to assure the stability of the German currency. The record of the first year shows that stability has been achieved and fully maintained. The introduction of the rentenmark currency in November, 1923, marked the first stage of currency stabilization; the reconstitution of the Reichsbank on October 11, 1924, in accordance with the recommendations of the Experts' Plan, marked its definite accomplishment. The year which has passed since then has been a period of readjustment and rebuilding after the extreme disorganization of the inflation. It has had its own problems and difficulties, as was to be expected. Above all, it has emphasized the task of gradually restoring the fund of capital and credit which is needed to finance domestic business and industry, and the importance, in the process, of so administering the credit resources which are available as to meet the most essential demands. The extent to which the German economy has faced this problem, and the manner in which the Reichsbank and the Government have dealt with it, make one of the most significant chapters of the year.

a. The German currency.

In connection with the adoption of the Experts' Plan Germany established a new currency known as the reichsmark. This currency has remained stable ever since its adoption. In terms of foreign exchange, the value of the reichsmark has not varied at any time in reference to the dollar, and it has remained firm as the equivalent of gold in other exchanges. This adherence to par has been attained through the Reichsbank, which has stood willing to purchase at par all dollars offered in excess of the market demand and to sell at par all dollars required in excess of the market supply. But it presupposes, also, that the financial conditions determining the international flow of funds have been fairly in equilibrium. The further test of the stability of the currency, namely its domestic purchasing power, seems also to have satisfied requirements, certainly to the extent realized in other countries where currencies are based upon gold. According to the leading index figures for wholesale prices, the difference during the year between maximum and minimum in Germany has actually been slightly less than in such countries as the United States and Great Britain. Prices at retail, as reflected in cost-of-living indexes, offer a less favorable basis for comparison, owing in part to conditions which will be described more fully in a later chapter.

The steps taken to bring about stability of the German currency before the inauguration of the Experts' Plan and the developments which occurred during the first eight months of the Plan's operation, were described in the first Report of the Agent General. It is unnecessary to review the ground thus covered, but the expiration of a year since the reconstitution of the Reichsbank provides a convenient period through which these and subsequent developments may be traced.

(1) *Elements in the circulation.* — On October 31, 1924, the total monetary circulation of Germany amounted to 3,874 million reichsmarks, taking the old paper circulation at the equivalent of one billion (a million million) marks to one reichsmark or rentenmark. On October 31, 1925, the circulation was 5,083 million reichsmarks, an increase for the year of 1,209 million reichsmarks. The circulation was

divided among several kinds of currency, as appears in the following table:

(In millions of marks [gold] or reichsmarks)

	July 23, 1914	Oct. 31, 1924	Oct. 31, 1925
Reichsbank notes	1,891	1,780.9	2,802.9
Notes of the private banks of issue (Bavarian Note Bank, Württemberg Note Bank, Saxon Bank, Baden Bank)	150	2.6	190.4
Notes of the Reichskassen	100	—	—
Rentenbank notes	—	1,719.7	1,542.6
German gold coins	2,750	—	—
Other German coins	850	328.5	547
Hamburg emergency currency (gold secured)	—	42.3	—
Totals	5,741.0	3,874.0	5,082.9

Of the four kinds of currency now circulating in Germany, the notes of the Reichsbank showed by far the largest increase for the year, namely 1,022 million reichsmarks, which was only slightly less than the total increase for all kinds of currency. These notes furnish the main fluctuating element in the German circulation, and their volume in proportion to the total is likely to increase rather than decrease, partly because they will be called upon largely to replace the Rentenbank circulation as it is retired. They have already replaced the old notes of the Reichsbank, denominated in marks, which have practically disappeared from circulation. But that replacement does not enter into the reported increase of Reichsbank notes for the year, because the old mark notes, as long as they have remained in circulation, have been reported in their reichsmark equivalent, 1 billion (a million million) marks to 1 reichsmark.

Up to October 31, 1925, there have been paid into the sinking fund, for the withdrawal and cancellation of Rentenbank notes, 264 million rentenmarks, of equivalent value with reichsmarks. These notes, introduced as emergency currency in the autumn of 1923, played a most important part in the early months of stabilization. But from the autumn of 1924, when the provisions of the liquidation law passed in furtherance of the Experts' Plan went into effect, they began to diminish both in volume and importance. One hundred millions were withdrawn from circulation and destroyed at the end of November, 1924. Another 164 millions have been redeemed from the German Government's share in the earnings of the Reichsbank for 1924, amounting to 55.6 million reichsmarks; from interest received from the general mortgage on agricultural land, amounting to 48.2 millions; and from transfers from the German Government, amounting to 60 millions. In addition to these withdrawals 193 million rentenmarks were paid into the sinking fund on November 30 representing the amount then due from the repayment of agricultural bills. Small further retirements of Rentenbank notes are to take place this calendar year.

The minimum time required for the extinguishment of Rentenbank notes, according to the schedules of the law, is seven years from 1924,

and the maximum ten years. The value of the rentenmark in the early stages of stabilization cannot be overestimated, but at this time its main virtue as currency is that it cannot be increased and that steps for its retirement are in progress. As long as any part of this circulation remains, it amounts to an undeclared claim upon the Reichsbank's gold reserves.

A third element in the German currency is the circulation of the private banks of issue (the Bavarian Note Bank, the Württemberg Note Bank, the Saxon Bank and the Baden Bank). The rights of these banks to issue notes, existing at the time the new bank law was adopted on August 30, 1924, were protected, but their aggregate issu was limited to 194 million reichsmarks. Their volume fluctuates within narrow limits and the proportion it bears to the total circulation is not large.

The fourth element is composed of the German coinage. Before the war, aside from fractional coins, this comprised considerably more than 2,000 million marks in gold coins. The old gold coinage has entirely disappeared from circulation and no new gold coins have been struck. A limited number of silver coins in the one-mark denomination have now been supplemented with a new silver coinage in one, two, three and five reichsmark denominations.

(2) *Growth of the circulation.*—The total circulation of the several classes of currency is now approaching a level which is less than one milliard (a thousand million) reichsmarks below the average circulation before the war. The growth of the German circulation since September 1, 1924, as compared with the pre-war circulation, is shown in the following table, which gives the circulation of the Reichsbank and the Rentenbank separately for 1924-1925 and compares their totals with the Reichsbank circulation in 1912-1913.

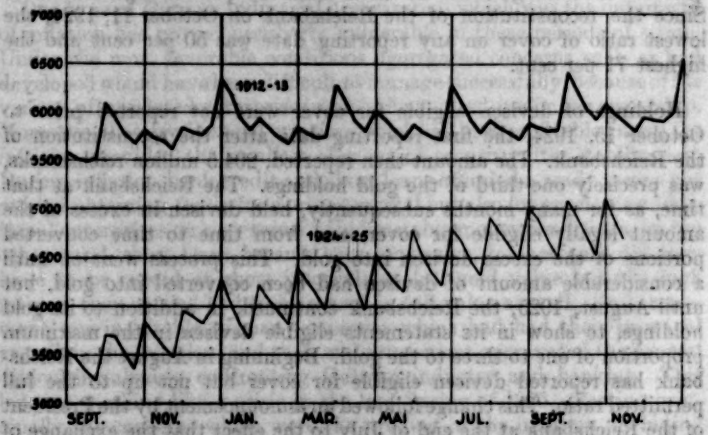
(In thousands of marks [gold] or reichsmarks)

	1924/1925			1912/13	1924/25	1912/13
Date	Rentenbank notes in circulation	Reichsbank notes in circulation	Rentenbank and Reichsbank circulations combined	Reichsbank notes in circulation	Total German circulation	Total German circulation
August 31	1,863,500	1,391,900	3,255,400	1,752,700	3,578,100	5,593,500
September 30	1,888,300	1,520,500	3,408,800	2,273,800	3,749,800	6,135,500
October 31	1,719,700	1,780,900	3,500,600	1,993,000	3,874,000	5,836,700
November 30	1,677,400	1,863,200	3,540,600	2,010,000	3,991,900	5,854,300
December 31	1,835,100	1,941,400	3,776,500	2,519,400	4,304,700	6,874,300
January 31	1,780,500	1,901,300	3,681,800	1,961,900	4,233,700	5,800,600
February 28	1,736,200	2,106,200	3,842,400	1,876,000	4,409,700	5,711,800
March 31	1,611,200	2,314,600	3,925,800	2,324,700	4,506,400	6,176,500
April 30	1,480,200	2,451,800	3,932,000	2,050,600	4,525,100	5,891,600
May 31	1,551,400	2,608,800	4,160,200	1,912,700	4,791,900	5,745,900
June 30	1,671,700	2,474,400	4,146,100	2,316,800	4,801,400	6,171,500
July 31	1,701,300	2,530,300	4,231,600	1,948,700	4,911,500	5,785,300
August 31	1,712,600	2,594,600	4,307,200	1,915,700	5,004,100	5,743,300
September 30	1,713,100	2,649,100	4,362,200	2,455,600	5,081,100	6,308,000
October 31	1,542,600	2,802,900	4,345,500	2,118,700	5,062,900	5,956,200

The size of the pre-war circulation is not, of course, a good basis for testing the adequacy of the currency under present conditions. On the one hand, the German currency before the war supplied a territory in continental Europe some 10 per cent larger than at present and in addition provided the German colonies with currency. On the other hand, the world price level in terms of gold is some 50 per cent above the pre-war level.

From the table given above it appears that the total circulation increased more rapidly during the first ten months of the period than later; indeed, since July the circulation has shown a tendency to seek a level. The causes for the increase in the circulation may be briefly traced. There has been, as will appear below, some expansion of bank credit during the year which necessarily has been reflected in an increase in the circulation. But at the beginning of the period both credit and currency were on a lower level than the commercial and industrial activity of the country warranted either in fact or in prospect. The Experts' Plan recognised this deficiency and one of the purposes which the German External Loan of 800 million reichsmarks was to serve was that of giving substantial backing for a necessary increase in the currency. Other external loans and credits, in so far as their proceeds have been required for disbursement within Germany, have supplemented the External Loan in providing additional cover for currency. They have also, as their proceeds were converted into reichsmarks, stimulated a rise in the circulation.

The following diagram, which compares weekly changes in the total circulation during the last 14 months with that during the corresponding period of 1912-1913, illustrates not only the growth in the circulation but its characteristic movements.



Total currency in circulation pre-war and now.
(In millions of marks [gold] or reichsmarks, weekly figures.)

The weekly movements in the circulation are of considerable importance. Latterly the fluctuations from the low to the high points in each

month have amounted to nearly 600 million reichsmarks, or more than 10 per cent of the maximum circulation. These swings mark the month-end settlements of many accounts, but are also due, in large part, to the practice of paying most of the public officials and employees in cash around the ends of months. Before the war, when quarterly settlements were more general than now, the maximum points in the circulation were concentrated around the ends of quarters rather than around the ends of months. An important effect of the recurrent month-end increase is that the Reichsbank has to maintain at all times a reserve against a note issue which is at its maximum during only four or five days of each month. Changes in the methods of handling payments that would spread the use of currency more evenly through the month would tend to level off the fluctuations in circulation and lead to greater economy in the use of the reserve.

(3) *The Reichsbank's reserves.*—The gold stock of the Reichsbank has risen steadily since June 7, 1924, when for seven weeks it had been standing at the lowest point reached, namely 442 million marks. On August 30, 1924, the gold stock was 516 million marks, and a year later, on August 31, 1925, it stood at 1,138 million reichsmarks, an increase of 622 million reichsmarks. By October 31, 1925, the gold holdings had increased somewhat further and amounted to 1,207 million reichsmarks. Supplementing its gold cover, the Reichsbank is permitted under the law to count as additional cover for its notes a certain proportion of devisen, which the law defines as "banknotes, or bills of exchange not having more than 14 days to run, checks and claims due from day to day payable in foreign currency by a bank of known solvency in foreign financial centres". The minimum cover permitted by law is 40 per cent, and of the total cover at least three-quarters must be gold and not more than one-quarter eligible devisen. Since the reconstitution of the Reichsbank on October 11, 1924, the lowest ratio of cover on any reporting date was 50 per cent and the highest 71 per cent.

Holdings of devisen eligible for cover were not reported prior to October 15, 1924, the first reporting date after the reconstitution of the Reichsbank. The amount then reported, 204.5 million reichsmarks, was precisely one-third of the gold holdings. The Reichsbank at that time, as for many months subsequently, held devisen in excess of the amount legally eligible for cover, and from time to time converted portions of the excess devisen into gold. This process went on until a considerable amount of devisen had been converted into gold, but until August, 1925, the Reichsbank continued, in addition to its gold holdings, to show in its statements eligible devisen in the maximum proportion of one to three to the gold. Beginning in August the Reichsbank has reported devisen eligible for cover but not up to the full permitted ratio. This change followed an announcement by the President of the Reichsbank at the end of July to the effect that the exchange of devisen into gold would continue for a somewhat longer time in the interest of acquiring an adequate stock of gold. On October 31, 1925, the Reichsbank reported holdings of eligible devisen in the amount of 348.3 million reichsmarks, making the total cover on that date 1,555.2 million reichsmarks.

An important factor in the increase in the stock of gold and devisen was the German External Loan; but the Reichsbank had started to accumulate gold from abroad before the proceeds of the loan became available and it continued to do so after they were fully in hand. Practically all of this gold came from outside Germany and flowed against the tide of an adverse trade balance. The gold was needed for current or prospective currency cover and only a large supply of new credits permitted its accumulation at a time when foreign funds were largely in demand for other purposes.

b. Credit conditions in Germany.

Since stabilization credit conditions in Germany have been progressing through three main stages: first, a period when any form of credit, either at short or long term, was to be found only with the greatest difficulty and at almost prohibitive rates; second, a period when the volume of credit increased, but almost exclusively in the form of short credit, which was then called upon to perform the emergency function of providing industry and commerce with working capital; and third, a transitional period, when industries in good position have been able to repay some portion of their short debts, or to convert them into longer time obligations, while other concerns, unable to meet their short obligations or to procure long-term credit, have had to go out of business. Germany may now be regarded as having definitely passed through the first of these stages, which was acute when the Experts were framing their Report. The first year of operations under the Experts' Plan has seen the second stage passing into the third, and the present may be regarded as a transitional period. These are natural and probably essential credit developments in a country recovering from inflation.

One type of German industrial organization which was the outgrowth of inflation has proved peculiarly vulnerable in these periods of strain. Under the most favorable conditions aggregated concerns such as had developed would have been difficult to manage successfully, because of the variety of unrelated enterprises which they united under one ownership. Moreover, the very financial practices which had been profitable during the inflation provided the smallest element of security after stabilization. During inflation bank credit and short loans afforded a ready means not only of obtaining funds for working capital but also for purchasing additional enterprises on easy terms. Under stable money conditions, on the other hand, short loans became very expensive, for not only did they have to be repaid at short intervals at full gold value but the high interest they carried had to be repaid in full value as well. Embarrassment was inevitable to many concerns which had had their principal growth in the inflation, and their embarrassment aggravated the general difficulties already confronting German industry and banking. This led to something like a crisis in the late Spring of 1925, affecting principally the concerns which were the product of the inflation, including some of the largest in the country. The German banks, acting under the leadership of the Reichsbank, met the situation with vigour and succeeded in keeping it well under control. Reorganizations were effected which involved disintegration, and enterprises of dissimilar character were divorced from one another. Some of the component

companies passed out of existence, others into independent ownership, or were merged with existing industries doing a similar type of business, while some were bought by the State.

In so far as a business crisis is attributable to credit conditions, it may be said that the situation which developed in the spring and to some extent still remains, was precipitated by dependence upon short-term credit for capital purposes. Before the war the German banks were able to convert the short-time loans which stood on their books against industrial and commercial enterprises into long-time funds through the issue of bonds or stock. Germany at that time was on the whole an exporter rather than an importer of capital and so could take care at favorable rates of the capital requirements of her own industry. But the power of the domestic market to supply capital to industry largely disappeared with inflation, and remains limited. While savings deposits have again begun to increase, income from bonds and shares in domestic corporations, which formerly provided the main fund for investment, is still relatively small and inadequate to meet the demands made upon it. Income from domestic bonds scarcely exists, because obligations in paper marks have practically ceased to have any value except through revalorization, and dividends are infrequent because such corporations as have made profits have pursued an extremely conservative dividend policy, owing in large part to their desire to build up again their working funds. The main requirements of German business and industry for long term credit must ultimately be satisfied from the growth of domestic capital, but for some time to come there will continue to be a strong demand for long term credits from abroad.

(1) *Foreign credits.* — The expectation that the German External Loan of a year ago would be followed by other loans to Germany has been realized. Since the placing of the German External Loan, which yielded about 800 million reichsmarks, long term loans to rather more than an equivalent amount have been made to German States and municipalities and to German industry. These were made in rapid succession during the winter months of 1924-25; thereafter new offerings practically disappeared until September, when the process was resumed.

From the beginning the Reichsbank and the German financial administration have done their best to discourage short term loans from abroad, because of the manifest dangers that would result from their sudden withdrawal. In fact, short loans from abroad were likely to be even less desirable as a means of providing working capital than short loans raised in the domestic market; but in the early part of the year the general shortage of credit attracted a considerable volume of such loans, in addition to the normal increase in the amount of foreign money on deposit in the German banks. At the present time, however, the short term market is relatively well supplied with funds, and the short term rates now prevailing may provide the motive for funds to flow into long-term loans.

Of the long term foreign credits granted during the year, those to municipalities and public undertakings have been the most numerous. The Government of the Reich, fearing that if carried too far such foreign

borrowings would pile up too large responsibilities for the future, instituted a board of review to consider applications for such loans and to give or withhold approval. While the powers of this board were nominally advisory, it has reduced or discouraged numerous municipal loans on the score that their proceeds would be spent in furtherance of projects not now mandatory, or possibly extravagant, and that these projects could not, certainly within a reasonable time, stimulate the export of goods wherewith to pay interest and repay principal.

Foreign loans to industry and agriculture and the purchase of participations in industrial enterprises are likely to serve a more beneficial purpose, and at the same time stimulate the production of goods for use in the domestic market or for export.

(2) *Public banks and credit.* — It will be recalled that the Reichsbank upon its reconstitution was declared in the law to be "a bank independent of government control." This independence has been fully maintained. But side by side with the Reichsbank, and in competition with the private banking system, there exists a far-reaching system of public banking institutions, organized and developed under the auspices of the Reich itself, or of the various States and Communes, and dependent in large measure upon deposits of public or semi-public funds. The previous Report called attention to these public banking institutions, and to the importance which their operations were assuming. The succeeding six months, however, have seen a still greater development of their functions, and have brought the whole question of public banks and public funds much more into the foreground. Some of the public banks, as, for example the Prussian State Bank, at least are performing what would ordinarily be regarded as central banking functions, even to the extent of lending to the commercial banks, and it has become clear that to an important extent the development of their business has been due to increased public deposits. Some of the public banks serve special purposes, while others carry on a banking business which differs in no essential particulars from that done by the ordinary private banks. Altogether, the public banking structure has developed to a point where it seriously rivals the private banking system both in deposits and in lending capacity.

Apart from deposits of public funds, the relationship of the various public banking institutions to the public authorities depends usually on control through stock ownership, through public guarantee, or through representation on the boards of direction. Of the banks which are related primarily to the Reich, as distinguished from the States and Communes, the Reichs-Kredit-Gesellschaft is the most prominent. It was organized to do the banking business for the Government's industrial and other business enterprises, which had been created largely for the production of munitions and were later converted into other forms of activity. These industrial undertakings, after the war, were consolidated by means of a holding company known as the V.I.A.G. (Vereinigte Industrie-Unternehmungen A. G.), which is wholly owned by the Reich, and which itself owns all the stock of the Reichs-Kredit-Gesellschaft. Inflation, which multiplied the work of the banks generally, was an effective agency in developing the business of the Reichs-Kredit-Gesellschaft, which was also the institution used by the Government in financing most of the so-called "E" bonds, issued to provide

compensation to German nationals for various claims arising out of the war. The passing in large measure of these activities left the Reichs-Kredit-Gesellschaft with a large staff of employees and a considerable equipment. Instead of liquidating, it has continued actively in business, and now performs general banking functions for the public at large. It also does at least some business for the account of the Reich, and it continues to do the banking business for the industrial undertakings owned by the Reich, as for example, the Deutsche Werke, which is a subsidiary of the V.I.A.G. Its intimate relation with the Government remains unimpaired and one of the Secretaries of State in the Finance Ministry acts as the head of its board of control. Unlike the large private banks in Germany, however, the Reichs-Kredit-Gesellschaft does not publish current statements of condition. It issues a balance sheet only once a year, and, according to the latest one published, as of December 31, 1924, its deposits amounted to 335 million reichsmarks, which compares very favorably with those of the large private banks with which it is in competition.

Another institution which has grown enormously within the past year is the Verkehrs-Kreditbank, the banker for the German Railway Company. This bank was organized by an Austrian promoter, for the purpose of financing the payment of freights on credit. In the autumn of 1924, the Railway Company acquired a controlling interest in its stock and now owns about 75 per cent of its total capital, which has recently been increased from 2 million to 4 million reichsmarks. The Railway Company has several representatives on its board of control, along with a Secretary of State in the Reich Finance Ministry, a representative of the Reich Ministry of Transport and representatives of several of the large private banks and banking houses, as well as of the Reichs-Kredit-Gesellschaft. Under its present organization, the Verkehrs-Kreditbank does a relatively small amount of business for the financing of freights, but its principal function is to act as the depositary of the Railway Company. It is a considerable buyer of bills, but otherwise does little banking business, and for the most part its funds are re-deposited in other banks. Like the Reichs-Kredit-Gesellschaft, the Verkehrs-Kreditbank publishes no current statement. It has published a balance sheet, in October, covering operations for the year ended June 30, 1925, and this showed deposits as of that date to the amount of 360 million reichsmarks, and profits during the year of 1,149,000 reichsmarks, or 57 per cent on its then capital. Funds to the extent of 278 million reichsmarks were shown as on deposit with other banks and bankers, but little appears to have been on deposit with the Reichsbank.

The Rentenbank-Kreditanstalt, which was organized in August, 1925, received its initial capital of 170 million reichsmarks from the free funds of the Rentenbank, the business of which is now restricted by law to the liquidation of rentenmark credits. The Kreditanstalt itself was created for the purpose of providing credits for agriculture, and acts as a central bank for this purpose. The membership of its board of control is appointed in majority by the Government, but agriculture in its various branches is fully represented in the delegates to the general meeting. Soon after organization it acquired additional funds for re lending to agriculture from the proceeds of a foreign loan in the capital

amount of 25,000,000 dollars, floated principally in the United States Its credit is made available indirectly through many agricultural and other credit institutions, some of which are of a public character, and include the State banks.

In addition to the foregoing institutions more or less related to the Reich, there are numerous State banks, which in part ante-dated the organization of the German Reich. The most important is the Prussian State Bank, generally known as the "Seehandlung", which exercises a great influence over the Berlin money market, where it is a principal lender on stock market collateral to banks and for Bourse transactions. Its capital is wholly owned by the State of Prussia and it administers not only the available funds of the State, but is not infrequently the depositary for other public funds. The Seehandlung publishes statements every two months, like the private banks, and its latest statement shows deposits on August 31, 1925, amounting to 900 million reichsmarks, or an increase of about 500 million reichsmarks since the beginning of the year 1925. On August 31 its loans on current account amounted to 458 million reichsmarks, its bill holdings to 213 millions, its advances on stocks and bonds to 106 millions and its deposits with other banks and bankers to 116 millions. The Bavarian and Saxon State Banks, and the Landesbank of the Rhine Province, showed deposits on August 31, 1925, ranging from 138 million to 318 million reichsmarks; other reporting State banks are comparatively small.

A third great category of banks under a kind of public control comprises the savings banks (or Sparkassen) andthe communal banks, which include a large number of institutions scattered throughout Germany, not only in the cities but also in the smaller communities. The Sparkassen aside from their normal function of receiving savings deposits and investing them in mortgages, public obligations and other restricted forms of investment, also receive deposits on current account subject to check and carry on a general banking business. Their savings deposits are eligible for investment outside the districts wherein they originate, whereas their banking deposits have to be employed within the district of origin. The two lines of activity are kept separate. The communal banks also carry on a general banking business, frequently with the funds of the Communes themselves. Both they and the savings banks are subject to public control, not so much in the form of periodic examination, as in the sense of current administration.

The savings banks and communal banks are knitted together through the so-called "Girozentralen" which are situated in important banking centres and are in turn centralized in the Deutsche Girozentrale—Deutsche Kommunalbank, in Berlin. The Girozentralen not only serve as clearing agencies for checks but as banks of deposit for savings banks and communal banks and as agencies through which the surplus funds of those banks are invested. They also provide accommodation to savings and communal banks in need of funds and otherwise do a banking business for the account of those banks and the public authorities. The fourteen Girozentralen reporting at the end of August, 1925, had deposits of nearly 1 milliard reichsmarks.

Side by side with the Deutsche Girozentrale is the Preussenkasse, which is under the direct control of the Prussian Minister of Finance

who appoints the members of the managing board. It centralises the funds of the farmers' and shopkeepers' co-operatives and recruits its customers from almost the same circles as do the Girozentralen, but more especially from agriculture. Though a Prussian institution, its activities extend beyond the boundaries of the State. In 1924 it received from the State of Prussia, as a participation, 30 million reichsmarks, and it has played a considerable part in the distribution of the agricultural credits made by the Rentenbank, the Reich and the Post Office, and Prussia. In 1924 its turnover amounted to 26 milliard reichsmarks, and on March 31, 1925, it had granted credits in the amount of 917.8 million reichsmarks to agricultural and other co-operatives.

This outline, necessarily incomplete, indicates the extent of the banking structure which has grown up in Germany under public control and shows the importance of the banking functions it has come to perform. In part, the system is rooted in tradition, but it is nevertheless true that war financing and post-war inflation stimulated its growth until its functions and apparatus passed far beyond its former scope and present means. With a public banking structure on this scale in addition to the normal private banking system, Germany now finds herself in the possession of a banking structure that is not only exceptionally complicated, but is also considerably more elaborate than the volume of business justifies. Recently the development of the public banks has taken a still more significant turn, with the sudden growth in surplus funds at the command of the public authorities.

The volume of funds at the disposition of the Reich and some of the States and the larger Communes has reached unprecedented proportions during the past year and has created a most unnatural situation. At a time when the most characteristic thing about the German economy is the acute shortage of working capital and of liquid funds with which to carry on the processes of production and distribution, the public offices and agencies are in possession of surplus funds in exceptionally large amounts, and are occupying the unique position of dispensers of credit to banks and the money-market, as well as to business and industry.

One difficulty in estimating the importance of these funds as a factor in credit conditions arises from the fact that there is no way of ascertaining accurately the total volume of the public deposits or even the public investments. Neither the Reich, the States nor the Communes publish statements showing their loans or banking deposits, and the public banks on their part either do not segregate deposits in their statements so as to show which are public and which are private, or else do not publish current statements at all. But whatever the totals may be, it is clear that the volume of public funds is sufficient to have reversed the ordinary relation of the Government to the central bank and the money-market. Instead of being borrowers, the Reich and its agencies, and some of the States and their agencies, are very large lenders.

With respect to the Reich, the Finance Ministry has defined the offices which lend public funds as the Finance Ministry itself, the Postal Administration, the German Railway Company, and the Insurance Office of the Reich. Under the Plan, the German Railway Company is, of course, an independent Company, and its funds cannot properly

be classified in this way. At the same time it has a quasi-public character, and its relations with the Verkehrs-Kreditbank have already been described. The funds at the command of the Finance Minister include the current surplus of receipts over expenditures; the Postal Administration has the ordinary revenues of the Post Office, together with the substantial balances incidental to the German postal-check system; while the Insurance Office has a relatively small fund derived from the public health insurance of employees, now chiefly invested in mortgages. The funds of the States arise not only from state taxation and other local revenues but from the very substantial share which the States have been getting in the tax receipts of the Reich and, in the case of some States from indemnities paid by the Reich for war and post-war losses. The funds of the Communes, similarly, come not only from local taxation, but from their shares in the revenues of the States and the Reich; communal funds may be of importance to the money-market to the extent that certain portions of them are more or less temporarily concentrated through the operations of the public banking system or represent substantial balances owned by the largest Communes or their agencies.

The responsibility for the management of these funds is divided and sub-divided not only among the Reich, the States and the Communes, but among their respective financial offices and agencies. It might be assumed that it would be the practice of the Reich and its agencies to deposit their funds solely with the Reichsbank; and of the States to deposit with the State banks, and the Communes with the Communal banks. The practice has in fact been far more complicated and has involved direct and indirect lending to various forms of private business, frequently through the medium of the public banks, and also the deposit and redeposit of public funds through the long range of publicly-owned or controlled banks.

The disposition of the public funds has presented more or less acute problems ever since they first began to accumulate. From the financial point of view the essential problem has been how to turn these funds, largely resulting from taxation, back into the money-market in such a way as to relieve the credit demand which their accumulation aggravated. Under normal conditions funds of this nature would find their way back to the money-market and into the hands of the investing public through the processes of debt liquidation. But in Germany the central government, and generally speaking the States also, have been practically without floating debt, and this process has not been possible. Furthermore, the nature of government requirements is such that public funds must be kept for the most part in liquid form and not be invested in undue proportion in long term obligations. The bulk of them have to be placed at short term, which neither relieves the need for working capital nor supplies funds for investment. Yet in so far as credit requirements go, it is from a dearth of working capital and long term credits that German commerce and industry at the moment are suffering the most.

A second phase of the problem is no less important. The existence of surpluses in the hands of public authorities has invited demands for credit from many quarters and has placed the administrators of public funds in positions of exceptional authority, particularly when

at the same time they have had close or controlling relationships with the public banks. It was essential, unless Germany were to have two official credit policies, for the administrators of public funds to work in intimate co-ordination with the Reichsbank, and to place their funds in such a way as to support its credit and currency policy. The leadership of the Reichsbank is implicit in the law, because on it is placed the primary responsibility for maintaining the goodness of the German currency and the adequacy of the reserve.

With the need for credit such as it was and continues to be in Germany, the existence of surpluses in the hands of the public authorities has invited demands from many quarters. The volume of long credit which the Reich and the States have granted is not reported; in the main it has consisted of loans to enterprises deemed to require credit from the standpoint of public policy, or, as in the case of groups of small borrowers, from the standpoint of emergency relief. These credits, being in the nature of investments, have been discussed in the chapter on the budget. But the volume of short credits has presumably been much larger.

Generally speaking, short credits have been placed in two principal forms, bank deposits and investments in bills. The Verkehrs-Kreditbank, for example, as depositary for the Railway Company which controls it, had on deposit on June 30, 1925, according to its statement of that date, 360 million reichsmarks. The bulk of these funds was on deposit with other banks. It was a comparatively small holder of bills.

The Prussian State Bank, the Seehandlung, has been the principal depositary not only of the Prussian Government, but it has received on deposit funds to a large amount from the Postal Administration and to a smaller extent from the Reich. Unlike the Reichsbank, which is debarred by law from paying interest on deposits, the Seehandlung can and does pay interest on deposits. It has also handled funds of the Postal Administration and the State for investment.

In the earlier stages of the growth of the public funds there was a strong desire on the part of the lending offices to obtain as high rates of interest as possible. It was not remarkable, for this and other reasons, that some of the loans should not have met the ordinary tests of banking judgment. Unwise lending led to losses, particularly in the portfolios of one or two of the State banks. Largely on this account the Postal Administration last March re-organized its system of deposits according to the following regulations:

1. In the clearing account of the Postal Administration at the Reichsbank there shall be kept a balance on an average of 30 million reichsmarks out of the postal check credit-balance.
2. Of the remaining disponible funds at least one-third shall be applied to the purchase through the medium of the Reichsbank of bills eligible for acceptance at the Reichsbank. The Reichsbank allows the Reichspost the rate of interest for private discounts.
3. The remainder shall be invested in fixed interest-bearing securities which are eligible as security for Lombard (collateral) loans at the Reichsbank, or in public loans, or in treasury bills of the Reich, or in loans to the State banks, to the Reich or to States. The maximum amount of the loans to the various State banks and

States shall be fixed by agreement with the Minister of Finance of the Reich, who on his part shall come to an agreement with the Reichsbank and with the government of the State in question.

These regulations were designed to ensure earnings as well as the safety of principal, but they were less successful in providing for a unified policy for handling the public funds. The Reichsbank received as a deposit a relatively small fraction of the available postal funds. In addition the arrangement was that the Reichsbank should invest at least one-third of the funds of the Postal Administration in bills. These in part were bought by the Reichsbank in the open market for the account of the Postal Administration, and in part were taken from the portfolio of the Reichsbank itself. Transactions of the latter sort did not affect the money market one way or the other, but served merely to transfer to the Postal Administration interest which otherwise would have fallen to the Reichsbank. The remainder of the postal funds was available for distribution elsewhere, notably among the State banks.

At about the same time the Seehandlung and the Reichs-Kredit-Gesellschaft, on their part, agreed to maintain closer relations with the Reichsbank so that the latter should be kept informed as to the general nature and extent of their administration of public funds. This was partly owing to the fact that these banks are located in Berlin and so are able to consult from time to time with the Reichsbank. But the independent character of the Seehandlung as a creation of the State of Prussia places it outside the direct control of the Reichsbank, and uniformity of policy, such as it is, has to be arrived at by agreement rather than supervision. As for the other State banks, their remoteness from Berlin makes uniformity of policy very difficult.

In September, 1925, the Government of the Reich undertook a further step looking toward a co-ordinated policy for the handling of public funds. While this step was taken with the agreement of the Reichsbank, its primary purpose from the Government's point of view, was to encourage a reduction of commodity prices, as will be seen from the following public announcement which was issued by the Finance Ministry on September 8th:

> In order to carry out the contemplated measures to lower prices, the Government of the Reich recently decided to administer the public funds of the Reich in such manner that not only no danger of an increase in private rates for money should occur, but that, on the contrary, the stimulus for their lowering should be given. Therefore, with the co-operation of the Reichsbank, an agreement has been reached between those offices which loan public funds — i. e., between the Ministry of Finance of the Reich, the Postal Authorities, the German Railway Company and the Insurance Office of the Reich, that when funds are loaned to those banks which are entrusted with the further distribution of public funds the interest rate may not exceed at present $7^1/_2$ per cent. The interest rate for long term funds of the Postal Administration has been reduced to 8 per cent. The banks entrusted with the further distribution of public funds have undertaken to cause the benefit of this reduction of interest rate to be passed on in full degree to their customers, and, furthermore, to restrict their interest margin to the lowest possible measure. Definite agreements have been made on this point.

Subsequently, the Government announced that similar steps had been taken to extend this policy to the rates at which the funds of the States and Communes were placed with the minor public banks and re-lent by them.

It is not necessary to discuss here the consequences of cheaper money on commodity prices, though the results would seem quite likely to be the reverse of those indicated in the Finance Ministry's statement. Within limits, however, the steps taken by the Government have tended to discourage the former practice of putting out public funds in such a way as to obtain the highest rates of interest. At the same time, the tendency has been to place them below the market rate, and even below the Reichsbank discount rate, which has been at 9 per cent since February 28, 1925. There was, in fact, only one group of rates lower than the new deposit rate on public funds, that is to say, the average rates for day-to-day money on the Berlin Bourse and the rate on bankers' acceptances in the open discount market. But these were the rates which the very existence of the public funds had tended to depress, by supplying an abnormally large volume of funds for the short-term money market.

From the point of view of credit policy, it is manifestly important to bring the administration of the public funds more and more under the control of the Reichsbank, as the central bank of Germany and the principal guardian of its credit and currency reserves. Even this, however, would not entirely meet the situation, and it presents some practical difficulties because of the desire of the public authorities to earn interest on their available funds. To some extent the Reichsbank has been able to meet this desire by investing the funds in the market, and, as will be seen below, it carries a contingent liability of around 600 million reichsmarks in respect of bills taken from its portfolio and rediscounted largely with the public offices. But there are limits to this kind of transaction because of the conditions prevailing in the German money-market, where the supply of short bills is frequently too small for the demand. Partly because of their inherent character, the public funds cannot be turned back into the channels from which they came, for that would require their employment principally as working capital or as long term credit.

The Reichsbank has recently obtained, with the co-operation of the Finance Ministry, an increased measure of control over the public funds, which arises in part from the fact that the lower rates now prescribed for their use eliminate some of the incentive to individual lending. On the other hand, the lower rates at which these funds are available naturally increase the demands from borrowers. Full co-ordination with the Reichsbank in the administration of the public funds will go far to relieve the more pressing technical difficulties, but the fundamental solution, of course, must contemplate a closer adaptation of the sources of public revenue with essential expenditures.

(3) *Reichsbank credit.* — The Reichsbank's credit policy has been directed toward the building up of its reserves and the maintenance of a proper relation between the volume of the currency and the requirements of industry and trade. The discount rate remains at 9 per cent, as stated in the previous Report, and in addition the Reichsbank enforces a fairly strict policy of rationing credits. The Reichsbank

administration first undertook this rationing policy in the spring of 1924, in the conviction that the discount rate of itself was not adequate to keep the demands for credit within bounds, and still maintains it in force, though somewhat relaxed, in the belief that the time has not yet come when full reliance can be placed on the discount rate for the purpose of controlling credit.

The volume of Reichsbank credit, represented in the two items of its statement "Bills and Checks" and "Lombard Loans," showed a reported decrease in the year from 2,373 million reichsmarks on October 31, 1924, to 1,652 million reichsmarks a year later. This decline of 721 million reichsmarks does not take into account, however, two highly important factors. On October 31, 1924, the Reichsbank held in its portfolio some 700 million reichsmarks of agricultural bills which in the course of the succeeding year it transferred to the Rentenbank in part repayment of its loan of 800 million rentenmarks. Such transfers, as they were made from time to time, reduced by equivalent amounts the reported bill holdings of the Reichsbank. In addition, the Reich and various public or semi-public offices have from time to time entrusted to the Reichsbank for investment various temporarily idle funds. These the Reichsbank has placed in bills taken from its own portfolio. On October 31, 1924, the Reichsbank's contingent liability on account of all bills so rediscounted was 256 million reichsmarks, and a year later it had grown to 595 million reichsmarks. Transactions of this nature, like the transfer of bills to the Rentenbank, have had the effect of reducing the reported total of the Reichsbank bill holdings, and both sets of transactions have to be taken into account in comparing the Reichsbank loan position for different statement dates. A fair comparison can be arrived at by eliminating from the reported figures the bills transferred to the Rentenbank and by including in them the contingent liability. So calculated, the volume of Reichsbank short credit on October 31, 1925, amounted to a total of 2,247 million reichsmarks, as compared with 1,929 million reichsmarks a year ago, or an increase of 318 million reichsmarks during the year.

c. *The volume of credit.*

The existence of the public funds and of public banks performing functions more or less identical with those of private banks makes it necessary to distinguish between credit developments in the two classes of institutions. The private banks resumed with the beginning of the year 1925 the practice of reporting their condition every two months; consequently, it is possible to give a fairly complete estimation of credit movements in the private banks. Many of the public banks, however, and among them the largest, as for example the Reichs-Kredit-Gesellschaft and the Verkehrs-Kreditbank, have not yet published statements except as of the ends of their financial years. From such public bank statements as have been issued, it appears that their business has continued to expand, whereas the business of the private banks, taken as a whole, grew rapidly up to the end of April but after that at a much reduced rate.

(1) *In the public banks.*— In the following table are compared the principal statement items for 15 State banks and Landesbanken,

including the State Bank of Prussia (the Seehandlung) and 13 Girozentralen, for the last two reporting dates. It is impossible to give comparisons prior to June because of the limited number of banks then reporting. In the two months ended August 31, 1925, the most recent date as of which statements of condition are available, the deposits of the 15 State banks increased 157 million reichsmarks, to a total of 1,663 millions. The paid-in capital stock of these banks amounts to 41 million reichsmarks, which is 2½ per cent of the deposits, as compared with 11 per cent in the case of the chief private banks. Figures for the Seehandlung are available as of December 31, 1924, and comparison with the latest statement shows that in the eight months ended August 31, 1925, its total deposits increased 496.5 million reichsmarks, or 123 per cent. The loans of the State banks, including the Seehandlung, in the two months ended August 31st increased, however, only 90 million reichsmarks, and their deposits with other banks, including in part the local public banks and Girozentralen, increased 121 million reichsmarks. In this connection it is to be noted that the 13 Girozentralen reported an increase of 37 million reichsmarks in deposits received from other banks.

(In thousands of reichsmarks)

	15 State Banks including Seehandlung		13 Girozentralen	
	August 31	June 30	August 31	June 30
	1925			
Assets:				
Cash, amounts due from clearing banks and banks of issue	19,698	18,797	14,883	15,123
Bills and treasury notes	351,987	330,655	190,571	202,665
Amounts due from banks and bankers	266,906	145,531	154,267	123,302
Advances on merchandise	2,818	2,231	—	—
Advances on stocks and bonds	117.981	137,232	—	—
Loans at fixed term	—	—	252,232	279,483
Loans on current account	907,560	798,780	359,465	342,343
Liabilities:				
Capital paid in	41,049	40,482	45,760	35,779
Reserves	17,068	16.291	17,712	12,697
"Glaubiger" — mainly time and demand deposits	1,662,216	1,506.120	945,036	944,633
of which:				
7 days or demand	424,106	441,637	301,830	364,230
8 days to 3 months	812,130	738,516	432,711	403,120
over 3 months	189,667	115,969	60,354	63,007
due to other banks	144,270	123,009	146,383	109,278

Savings deposits in the Sparkassen, or savings banks, for the whole of Germany have been reported officially only for two months, to the end of August, 1925, as 1,304 million reichsmarks and at

the end of September as 1,375 millions. This total is less than 8 per cent of the savings deposits before the war, but judging from the available figures for the State of Prussia, they have been accumulated largely in the last year. In Prussia, while the increase has been continuous, there has been a progressive slowing-down in the monthly increment from 80 millions in January to 70 millions in March, to 60 in April and May, and to about 50 thereafter. This decline has coincided with a rise in rents and the cost of living. But too close deductions cannot be drawn from the reported figures, because public funds belonging to the Communes or minor public enterprises are occasionally deposited with the savings banks and make it difficult to draw conclusions concerning the progress of saving in Germany. According to a statement made in behalf of the savings banks in the Prussian province of Westphalia, for example, public funds accounted for 6 to 8 per cent of the reported savings there.

(In millions of reichsmarks)

Date	Savings deposits in Prussia	Month-to-month increase
November 1924	332.2	—
December 1924	404.1	71.9
January 1925	482.3	78.2
February 1925	553.9	71.6
March 1925	621.4	67.5
April 1925	682.1	60.6
May 1925	742.6	60.6
June 1925	796.1	53.4
July 1925	846.6	50.5
August 1925	901.8	55.2
September 1925	948.0	46.2
October 1925	996.9	48.9
	Total increase	664.7

The banking deposits in the Prussian savings banks, according to unofficial statements, have increased from about 275 millions in November, 1924, to about 585 millions in October, 1925. The bulk of the increase was in the winter months.

The figures given in the foregoing tables for the deposits in the public banks and the savings banks do not represent by any means the total of the funds deposited with public banks of all categories. The Reichs-Kredit-Gesellschaft and the Verkehrs-Kreditbank, for example, are omitted entirely, though each must have total deposits not far from those of some of the largest private banks in Germany. The Preussenkasse, with deposits from a very large number of co operative societies, and all the Communal banks are also omitted. Conservatively estimated, however, the deposits in the various public banks constitute as much as one-third and possibly more of all of the banking deposits in Germany. In the absence of statements from the Reich, the States and

the Communes, it is impossible to state with accuracy what proportion of these deposits are attributable to public funds.

(2) *In the private banks.* — On August 31, 1925, the date of the latest available statements, the deposits of six of the largest Berlin banks, which represent about 75 per cent of the banking strength of all non-public banks in Germany, amounted to 4,140 million reichsmarks. During the early part of the year their deposits grew rapidly and up to April 30 had reached a point nearly four times what they were on January 1, 1924. From April 30, however, the rate of increase was substantially less and between June 30 and August 31 amounted to only 12 million reichsmarks.

(In thousands of reichsmarks)

	August 31	June 30	April 30	Febr. 28	Dec. 31	Jan. 1
	1925				1924	
Assets:						
Cash, amounts due from clearing banks and banks of issue	121,715	167,305	103,971	85,152	194,718	105,747
Bills and treasury notes ...	1,112,996	1,091,626	1,007,436	882,223	860,289	42,183
Amounts due from banks and bankers .	583,079	608,802	658,120	624,370	629,006	458,788
Advances on merchandise .	339,090	343,525	360,128	332,779	260,691	74,448
Advances on stocks and bonds	82,051	68,825	67,135	53,728	41,705	17,210
Loans on current account	2,333,063	2,252,082	2,100,697	1,873,722	1,477,606	517,626
Bank building .	167,054	166,734	166,972	160,819	159,552	157,000
Liabilities:						
Capital stock ..	452,020	452,020	452,020	452,020	452,020	452,020
Reserves	177,663	178,128	177,663	170,263	169,263	169,220
"Glaubiger" — mainly time and demand deposits	4,139,569	4,127,357	3,942,572	3,571,606	3,192,570	1,057,640
of which:						
7 days or demand ...	1,688,005	1,687,850	1,693,278	1,480,444		—
8 days to 3 months .	1,473,789	1,413,048	1,248,213	1,234,516	2,505,995	—
over 3 months	113,358	68,230	51,554	72,988		—
due to other banks	553,608	616,913	582,551	508,891	480,711	—
Acceptance liabilities	247,530	219,332	177,013	73,470	12,758	1,666

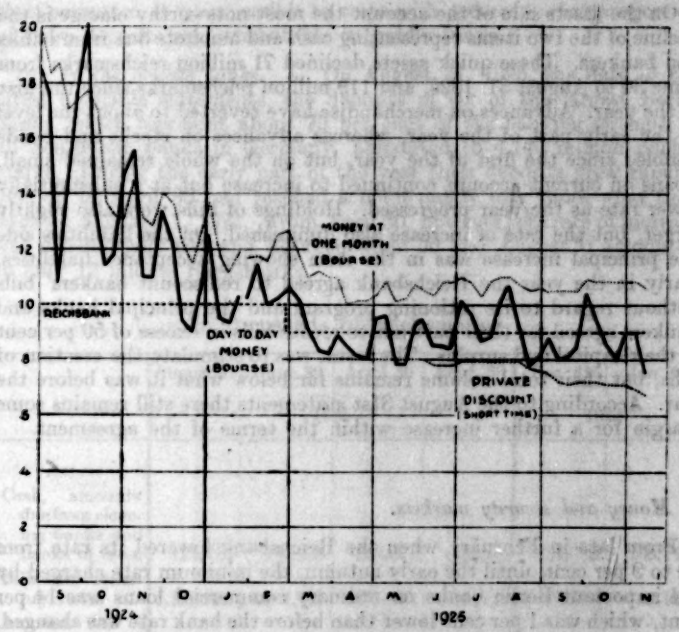
On the assets side of the account the most noteworthy change is the decline of the two items representing cash and amounts due from banks and bankers. These quick assets declined 71 million reichsmarks from June 30 to August 31, 1925, and 119 million reichsmarks since the first of the year. Advances on merchandise have reverted to about the level of the early part of the year, whereas advances on stocks and bonds doubled since the first of the year, but on the whole remained small. Loans on current account continued to increase but at a substantially lower rate as the year progressed. Holdings of bills were also slightly larger, but the rate of increase also diminished. On the liabilities side the principal increase was in the item showing acceptance liabilities. Early in the year the Reichsbank agreed to rediscount bankers' bills without regard to its rationing program and the principal banks and bankers agreed for their part not to create bills in excess of 50 per cent of their capital and surplus. The result was to stimulate the creation of bills, but their total volume remains far below what it was before the war. According to the August 31st statements there still remains some margin for a further increase within the terms of the agreement.

d. Money and security markets.

From late in February when the Reichsbank lowered its rate from 10 to 9 per cent, until the early autumn, the minimum rate charged by the important Berlin banks on ordinary commercial loans was 14 per cent, which was 1 per cent lower than before the bank rate was changed. From this minimum rate interest charges ranged upward, depending upon the credit standing of the borrowers. In the early autumn of 1925, however, the important Berlin banks changed the minimum rate on customers' loans to a normal rate of 13.4 per cent from which actual lending rates varied more or less in both directions. This normal rate was based upon bank rate plus one-fifth per cent per month and 2 per cent commission.

The various open market rates, including those for day-to-day money and money at one month on the Berlin Bourse, and the rate in the private discount market for bankers' bills, have ranged somewhat lower than in the early months of the year. Since April, however, except for the bill rate, the downward tendency has not been marked. The relative ease in the bill market is attributable in large degree to the volume of public funds seeking investment, and reflects also the limited supply of bankers' acceptances which are being created. The accompanying diagram illustrates the course of the principal market rates in relation to the Reichsbank rate.

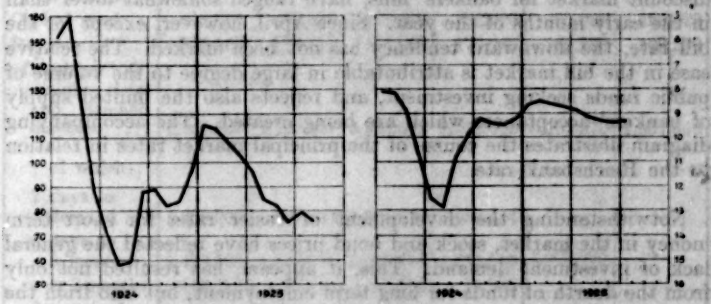
Notwithstanding the development of easier rates for short term money in the market, stock and bond prices have reflected the general lack of investment demand. This, it appears, has resulted not only from the dearth of funds for long term employment, but also from the general conception of conditions affecting heavy industry and from the relative scarcity of dividends. The following diagram, based upon figures provided by the Statistical Office of the Reich, illustrates the general course of prices on the Berlin Bourse in the last two years. In



Money rates in Berlin.

(In percentages.)

the case of shares the diagram shows market prices in per cent of par; in the case of bonds, the rate of return to the investor, rather than market fluctuations in price, because of the difficulties in converting principal amounts to a common basis.



Security prices on the Berlin Bourse.

Stocks. — Prices in per cent. of par. Bonds. — Prices in terms of annual rate of return to the investor.

As will be seen in the foregoing diagram, stock prices began early in 1924 to decline from the high point at which they stood in the first months of stabilization. The decline was pronounced until late in the summer of that year when, with the adoption of the Experts' Plan and the gradual restoration of confidence, they rose until February, 1925, but only to a point considerably below that of the year before. The market since that time has been on the whole quiescent, with the course of prices generally downward.

Up to the autumn of 1925 trading on the Bourse was conducted on a basis of immediate settlement, but term settlements have now been restored with respect to some 48 of the leading stocks, thereby in a measure restoring the method of settlement followed before the war.

Inasmuch as inflation almost fully extinguished the value of obligations expressed in terms of paper marks, bond transactions have been comparatively limited and have related for the most part to issues made since the war. These include a number of issues made during the inflation which are stated as to amount of principal in various commodities, such as rye, lignite, coke, sugar, lumber and, in at least one case, kilowatt-hours. Among the loans expressed in terms of gold, only about a score are industrials. More numerous are gold loans of banks, largely mortgage banks and agricultural credit institutions. There is also a limited number of state and municipal loans, together with a few issues of the Reich, all but one of which are almost negligible in amount outstanding. The loans in terms of gold are for the most part either in foreign currencies, in gold marks as distinguished from reichsmarks, or in gold by weight.

VIII. Germany's Foreign Trade.

The foreign trade of Germany during the first year of the Experts' Plan has been under the influence of unusual conditions, and it is difficult even now to analyze the figures and to estimate the relative weight of the various factors that have been operating to affect the balance. To some extent, no doubt, these factors are external, and are more or less common to international trade all over the world. But to a still larger degree their origin is probably to be found within the German economy itself and, particularly, in the period of transition through which it has been passing. The disturbances incident to the first stages of stabilization are now over, but in their place have come other conditions of no less significance, the effect of which is still evident in the balance.

a. The trade balance.

The official figures of the Statistical Office of the Reich for the six months which have elapsed since the last Report have continued to show the substantial excess of imports over exports which had begun to appear in September, 1924, the first month of operations under the Plan. As will be recalled, for the months of July and August, 1924, there had been a favorable balance of exports over imports, aggregating for the two months about 188,000,000 reichsmarks. These months showed the effects of a period of extreme credit restriction, as well

as of uncertainty as to future developments. After the adoption of the Experts' Plan, and the restoration of confidence that followed, other factors came into play, and beginning with September, 1924, the balance of trade for every month has been more or less adverse. Taking this month as a starting point, for purposes of analysis, the available figures for imports and exports (excluding movements of precious metals and exports of deliveries in kind) are as follows:

(In thousands of reichsmarks)

	Imports		Exports		Excess of imports	
	Monthly total	Daily average	Monthly total	Daily average	Monthly	Daily average
1924						
September	618,492	20,616	562,189	18,740	56,303	1,876
October	847,369	27,334	610,043	19,679	237,326	7,655
November	1,034,225	34,474	641,002	21,367	393,223	13,107
December	1,214,442	39,176	739,120	23,843	475,322	15,333
1925						
January	1,275,759	41,154	695,657	22,441	580,102	18,713
February	1,070,283	38,224	629,843	22,494	440,440	15,730
March	1,032,071	33,293	708,114	22,842	323,957	10,451
April	1,005,935	33,531	669,830	22,328	336,105	11,203
May	992,737	32,024	727,891	23,480	264,846	8,544
June	1,007,219	33,574	685,624	22,854	321,595	10,720
July	1,154,067	37,228	742,842	23,963	411,225	13,265
August	1,178,468	38,015	724,556	23,373	453,912	14,642
September	1,054,522	35,151	776,566	25,886	277,956	9,265
October	1,074,182	34,651	846,482	27,306	227,700	7,345
Average, 12 months 1913	897,474	29,506	841,436	27,664	56,038	1,842

These statistics are based on the official reports of the Statistical Office of the Reich, and the monthly average for the year 1913 on the same basis has been given for purposes of comparison.

The figures themselves must be taken with some reserve. Not until December, 1924, for example, were the figures fully reported from the occupied territories. The figures for exports, moreover, do not

as yet include exports in the form of deliveries in kind on reparation account, though the Statistical Office is making arrangements which, it is hoped, will soon enable it to separate them in its monthly statements. It is quite possible, also, that the official figures err on the side of conservatism, and that the excess of imports is not so large as the statistics would indicate. This has recently been the subject of much discussion in Germany, and there is admittedly opportunity for errors in the figures. The practice of the Statistical Office, for example, has been to appraise the value of imports according to what it deems to be the most representative prices prevailing at the time the valuation is made. There are evidences that this has involved some overvaluation of imports, and it is understood that as a result the Statistical Office is considering a revision of its methods. In the case of exports, the general practice is to accept, subject to occasional check, the declarations of the exporters themselves. It is probable that there is still some tendency, particularly in the branches of trade where quality enters largely into price, for shippers to undervalue their exports, and this too may affect the figures. But even assuming a margin of error each way of ten per cent, as has been suggested by some independent observers, there remains for this whole period a rather large excess of imports over exports. For this the explanation must be found in underlying conditions rather than in the field of statistical method.

b. Factors affecting the trade balance.

One of the principal forces affecting the trade balance has been the extension of credits from abroad. With the adoption of the Experts' Plan foreign capital and foreign credits again began to flow into Germany, and within the year have attained a considerable volume. It is difficult to determine how large the volume has been, and undoubtedly a substantial share of the total has been in the form of short term credits to German banks and industries. But the amount of public issues has itself been large. There was first the German External Loan, in October, 1924, which yielded foreign currencies to the value of about 800,000,000 gold marks, and since then there have been loans in the American market alone yielding about as much again. In addition, there has been a substantial amount of credit obtained in other foreign markets. These new and enlarged foreign credits have provided German importers with the means to pay for large purchases of foreign goods, and the natural result has been to induce an increased volume of imports. The return to Germany of funds which were held abroad during the period of instability has provided an additional stimulus in the same direction.

At the same time, there has been within Germany a heavy demand for foreign goods, partly for foodstuffs but arising also, in large measure, from the general need of replenishment. The war and the inflation had left German shops and mercantile establishments bare of goods, and with the return to a stable basis it was necessary to restock empty shelves. Manufacturers also were in need of raw materials, and purchases of raw materials for German manufacture have thus been large in money value, particularly during the earlier part of the year. Over and above these special requirements for imported goods has been the development in consumptive demand on the part of the people as

a whole. To a large extent, this also has been a question of replenishment. By the time that the inflation crisis had passed, people of all classes were in need of many things, and there was a heavy pent-up demand for clothing, household articles and all manner of equipment. The aggregate of these individual needs must have made an impressive total, which became more and more an effective demand with the gradual increase in purchasing power that developed as employment increased and credit became less scarce. This undoubtedly expressed itself in a special demand for foreign goods, as people became able to satisfy desires for foreign products which the war and the inflation had long withheld from German markets.

Another underlying factor tending toward the dislocation of the trade balance during this first year of the Plan has been the necessity of re-establishing German foreign trade on a stable basis and of finding foreign markets again for German products. German exporters on their side have been operating with a currency stabilised on a gold basis, and after a period of unprecedented inflation and extreme disorganization in trade and industry. Their sales organizations in foreign countries had been all but destroyed, and it has been necessary not merely to reorganize production at home but also to organise again for selling in foreign markets. This is a process that takes time, and it has been particularly difficult during a period which has involved competition in foreign markets with other countries that have still been doing business on the basis of depreciating exchange.

The rebuilding of foreign markets has also involved the problem of the re-establishing of commercial relations with other countries, and in particular the effort to overcome trade barriers against the importation of German products. This has been an important source of difficulty during the first year of the Plan. Until January 10, 1925, Germany remained subject to various disabilities under the Treaty of Versailles, and was obliged, for example, to exempt from all import duties specified amounts of products originating in Alsace-Lorraine, Luxemburg and the Saar. It was not until that date, moreover, that Germany was relieved from granting to the Allied Powers the most-favored-nation treatment without reciprocity for German exports to Allied countries. The result was that as January 10th approached imports which were likely to be affected adversely were greatly stimulated, thus partly accounting for the high figures of December, 1924, and January, 1925.

Since regaining her freedom of action in respect to commercial policy, Germany has been actively engaged in negotiating new treaties of trade and commerce with the other nations of the world. This itself has been a matter of difficulty, but important progress has been made. At this writing commercial treaties have been ratified with the United States, Great Britain, Belgium and Greece and arrangements have been concluded, subject to ratification, with Italy, Holland, and Soviet Russia. Other treaties, as, for example, with France and Spain are still under negotiation, and in some cases, as with Poland, commercial arrangements for the time being are in a disordered condition. Most of the treaties thus far negotiated are based on most-favored-nation treatment, but are of short duration, and, generally speaking, are of a provisional nature.

Even with the gradual conclusion of commercial arrangements between Germany and other principal nations, there still remain difficult tariff and other customs barriers for the export trade to face. This is not a condition peculiar to Germany, but is one which confronts all exporting countries in greater or less degree. But it probably bears more heavily on German foreign trade than on others, because many nations that were formerly large customers have now raised tariff and other customs barriers for the protection of newly established national industries, and in addition to that have begun to trade more heavily than before the war with countries other than Germany.

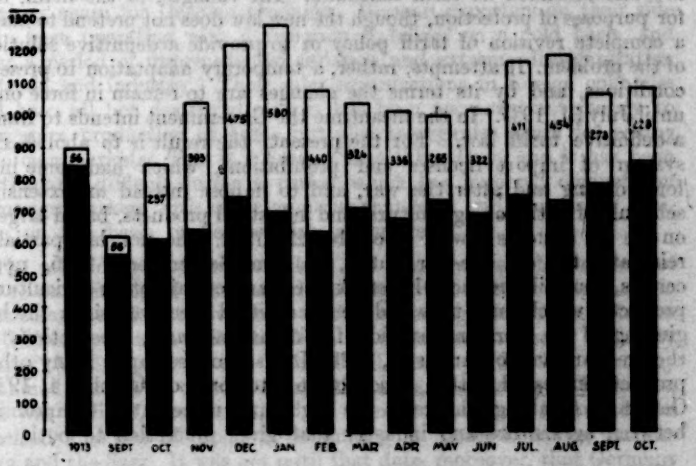
Partly for the purposes of commercial negotiations with foreign countries, and partly also for reasons of domestic policy, the German Government, under date of August 17, 1925, adopted a new customs law and amended its tariff schedules. The changes, in the main, are for purposes of protection, though the new law does not pretend to make a complete revision of tariff policy or to provide a definitive solution of the problem. It attempts, rather, a temporary adaptation to present conditions, and by its terms the changes are to remain in force only until July 31, 1927. In the meantime the Government intends to frame a definitive tariff law. For the present, the result is to abolish the system of import licenses and prohibitions, which had come into force during and after the war, and to impose instead an extensive schedule of duties on agricultural and industrial products, based largely on the old customs law of December 25, 1902. The new law partially reinstates the old pre-war duties, as from September 1, 1925, upon cereals, flourmill products, livestock, meat and certain other agricultural products, which until then had been admitted free ever since the beginning of the war, and provides for further increases, substantially to the pre-war level, on August 1, 1926. It also imposes upon many other products increased duties, which came into force on October 1, 1925. Generally speaking, the rates are high, and represent a compromise between agriculture and industry that gives protection to both.

It is still too early to estimate the effects of the higher duties either on the trade balance or the cost of living, though their tendency would seem to be clearly in the direction of increased prices and, perhaps, of increased costs for domestic production. Certainly, the prospect of these higher duties greatly stimulated the import of goods immediately prior to the dates when they went into effect. It is hoped, on the other hand, that the duties on agricultural products will stimulate agricultural production and help to reduce cereal and agricultural imports. Generally speaking, however, it would seem that the duties on both agricultural and industrial products, if indeed they result in increasing the price level in Germany, will tend to raise the costs of production and to place additional obstacles in the way of increasing German exports to other countries.

c. Detailed analysis of the movements of imports and exports.

With these various factors in mind, it is desirable to examine in somewhat greater detail the available import and export figures, and to analyze further the various currents that are in motion.

In the first place, it is to be observed that the fluctuations in the balance of trade are due primarily to changes in the monthly volume of imports. Exports, in contrast, have varied but little from month to month, until recent months when they have shown a tendency to increase. On the whole, imports rather than exports have been chiefly responsible for the size of the adverse balance. Whereas the monthly average of German imports in terms of money during the first ten months of 1925 was 121 per cent of the monthly average of imports during 1913, the monthly average of exports was 86 per cent of that for 1913. The following diagram compares the foreign trade for each month thus far in 1925 with the average monthly figures for 1913:



(In millions of reichsmarks)

German foreign trade — 1924—1925

Full length of columns — Imports.

Black section — Exports.

White section — Excess of imports, also designated in figures.

The excess of imports over exports, which is graphically illustrated above, amounted in January, 1925, to 580 million reichsmarks and in August to 454 million reichsmarks, but it has since varied downward to 278 million reichsmarks in September and 228 million reichsmarks in October. The months of largest deficit were months of largest imports. In January the deficit was due in part to the bringing in of goods from Alsace-Lorraine, Luxemburg and the Saar in anticipation of the changes in the Treaty status; and in July and August the coming

tariff changes also stimulated an unusual volume of imports. Exports, on the other hand, have been relatively steady, with latterly a marked tendency to increase. From a daily average of approximately 22.5 million reichsmarks in the first four months of the year the daily average for the next four months rose to about 23.5 millions and in September reached 25.9 million reichsmarks. In October the daily average of exports reached 27.3 millions, but little below the daily average in 1913.

Analysis of the various classifications of imports and exports helps to show those departments of foreign trade which have been most significant in determining the character of the trade balance. Imports of raw materials and semi-manufactured products constitute by far the largest part of the import trade. German industry now as before the war finds itself obliged to maintain large stocks of raw materials so as to insure uninterrupted productivity, and the building up of such stocks has been a factor of importance. While in most months the money value of raw material imports has been higher than in 1913, the level of commodity prices is higher also; and it appears that the physical volume of such imports during the year has been actually less than before the war. This is the more noteworthy because the necessity for restocking, in addition to Germany's normal annual requirements, mi ht have been expected to result in raw material imports substantially greater than in 1913.

With respect to the second main category of German imports, namely foodstuffs and beverages, no statistical corrections are sufficient to explain the growth in the imports of these commodities, particularly in the summer months of 1925. It is still too early to tell whether the high level then reached was merely a temporary anticipation of the new tariff, or whether it indicates a more permanent rise in domestic consumption.

The bulk of Germany's exports now as before the war is composed of finished products, and these on the whole have tended to increase during the year. In October, for example, the value of such exports was more than 80 million reichsmarks higher than the average month of 1913. For the preceding twelve months, from October, 1924, to September, 1925, they approximated in money value the amount of such exports in 1913, but by reason of the changes in the price level were in point of volume considerably smaller. As contrasted with the export of finished goods, the money value of raw materials exported shows a marked falling off as compared with 1913. Some of this decline is to be attributed to the fact that exports of coal and other raw materials formerly shipped as commercial exports now largely take the form of deliveries in kind on reparation account and are not yet included in the official export figures. During the first Annuity year reparation deliveries of coal and other raw materials amounted to about 26 million reichsmarks a month, the bulk of which was not reported as German exports.

The first of the following tables compares the money values of the various groups of imports and exports during the past eleven months with the monthly averages in the same groups for 1913. The second table makes similar comparisons in respect of volume in terms of metric tons (about 2,200 pounds).

Imports.

(Value in thousands of reichsmarks.)

Groups	Monthly average 1913	1924	1925			
		December	January	February	March	April
Livestock	24,141	8,264	7.050	6,145	7,214	11,900
Foodstuffs and beverages	233,986	381,584	344,967	318.285	295,301	293,072
Raw materials and semi-manufactured products	523.329	594.300	673.879	583.049	569.124	540.618
Finished products	116,018	230.294	249,863	162,804	160.482	160,345
Totals	897.474	1,214.442	1,275,759	1,070,283	1.032.071	1.005.935
Gold and silver	36,366	94.240	89,611	52.807	73.639	73.991
Grand totals	933.840	1,308,682	1.365,370	1.123,090	1.105,710	1,079,926

Groups	1925					
	May	June	July	August	September	October
Livestock	12.946	15,046	14,063	12,891	12,181	9,800
Foodstuffs and beverages	292,712	344,450	449,568	458,127	402,832	355,696
Raw materials and semi-manufactured products	519.978	482,947	533.459	552.372	454.533	506,708
Finished products	167.101	164.776	156,977	159.678	185.476	201.978
Totals	992,737	1.007.219	1,154.067	1,178,468	1,054,522	1,074,182
Gold and silver	90.447	62,600	25,895	124,945	34,540	44,761
Grand totals	1,083,184	1,069,819	1,179,952	1.303,413	1,089,062	1,118,943

Exports.

(Value in thousands of reichsmarks.)

Groups	Monthly average 1913	1924	1925			
		December	January	February	March	April
Livestock	620	2,715	2,338	1,688	1,643	2,030
Foodstuffs and beverages	89,127	58,969	47,741	47,791	51,125	43,120
Raw materials and semi-manufactured products	189,507	119.441	129.695	99.538	122,297	113,323
Finished products	562,182	557,995	515,883	489,826	533,049	511.357
Totals	841,436	739,120	695,657	629,843	708,114	669,830
Gold and silver	8,448	1,351	1,788	1,574	3,056	2.329
Grand totals	849.884	740,471	697,445	631,417	711,170	672,159

Groups	1925					
	May	June	July	August	September	October
Livestock	982	730	483	416	632	1,106
Foodstuffs and beverages	40,175	34,357	33,773	28,050	24,019	43,531
Raw materials and semi-manufactured products	137.789	120.201	140,442	143.411	149,488	155.543
Finished products	548.945	530,336	568,144	552,679	602.427	646.302
Totals	727.891	685.624	742,842	724.556	776,566	846.482
Gold and silver	4.174	1,988	3,642	2,910	3,616	4,948
Grand totals	732,065	687,612	746,484	727,466	780,182	851,430

Imports.

(Volume in metric tons.)

Groups	Monthly average 1913	1924	1925			
		December	January	February	March	April
Livestock[1]	14,998	6,913	5,910	5,777	5,484	7,315
Horses (units)	(11,967)	(1,004)	(1,645)	(1,230)	(1,298)	(6,341)
Foodstuffs and beverages .	975,335	855,633	692,039	649,560	613,840	656,046
Raw materials and semi-manufactured products .	4,963,948	3,963,301	3,721,607	3,275,770	3,712,177	3,772,019
Finished products[2]	89,915	252,223	195,338	74,367	97,364	100,763
Vessels and watercraft (units)	(77)	(—)[3]	(30)	(68)	(33)	(12)
Totals[3]	6,069,186	5,078,070	4,614,894	4,005,474	4,428,865	4,536,143
Gold and silver	131	270	159	151	203	127
Grand totals[3]	6,069,317	5,078,340	4,615,053	4,005,625	4,429,068	4,536,270

Groups	1925					
	May	June	July	August	September	October
Livestock[1]	8,473	10,816	10,957	10,782	9,081	6,454
Horses (units)	(7,385)	(6,809)	(6,397)	(4,420)	(4,633)	(2,706)
Foodstuffs and beverages .	659,546	615,215	1,062,474	1,126,804	820,841	677,419
Raw materials and semi-manufactured products .	3,427,765	3,648,605	3,662,761	4,018,807	3,230,630	3,944,521
Finished products[2]	121,906	146,548	119,154	109,403	122,946	114,948
Vessels and watercraft (units)	(103)	(20)	(44)	(29)	(19)	(15)
Totals[3]	4,197,690	4,420,560	4,855,366	5,265,796	4,183,598	4,043,342
Gold and silver	133	158	68	129	77	128
Grand totals[3]	4,197,823	4,420,738	4,855,434	5,265,925	4,183,675	4,043,470

[1] Weight of horses not included. — [2] Ships not included except in December 1924. — [3] Horses and ships not included.

Exports.

(Volume in metric tons.)

Groups	Monthly average 1913	1924	1925			
		December	January	February	March	April
Livestock[1]	141	2,265	2,011	1,406	1,270	1,607
Horses (units)	(497)	(282)	(174)	(194)	(365)	(581)
Foodstuffs and beverages .	447,857	276,594	189,816	191,302	206,712	211,926
Raw materials and semi-manufactured products .	4,970,788	2,071,705	2,503,113	1,619,571	2,192,400	2,161,589
Finished products[2]	724,008	616,851	479,498	442,837	497,811	464,317
Vessels and watercraft (units)	(58)	(—)[2]	(41)	(32)	(81)	(90)
Totals[3]	6,142,794	2,967,415	3,174,488	2,255,116	2,898,193	2,839,439
Gold and silver	62	8	12	10	27	20
Grand totals[3]	6,142,856	2,967,423	3,174,450	2,255,126	2,898,220	2,839,459

Groups	1925					
	May	June	July	August	September	October
Livestock[1]	646	379	181	115	147	145
Horses (units)	(687)	(613)	(700)	(591)	(930)	(1,359)
Foodstuffs and beverages .	210,610	169,885	164,059	143,788	140,515	217,075
Raw materials and semi-manufactured products .	2,694,142	2,516,037	2,888,960	2,899,100	2,751,125	2,853,963
Finished products[2]	519,134	436,792	501,478	496,981	531,080	573,598
Vessels and watercraft (units)	(90)	(110)	(162)	(91)	(43)	(92)
Totals[3]	3,424,532	3,123,093	3,554,698	3,539,984	3,422,807	3,644,781
Gold and silver	39	16	28	28	25	38
Grand totals[3]	3,424,571	3,123,109	3,554,656	3,540,007	3,422,832	3,644,819

[1] Weight of horses not included. — [2] Ships not included except in December 1924. — [3] Horses and ships not included.

As the foregoing figures suggest, the relative importance of the different groups making up the total of German imports and exports has changed to a considerable extent as compared with pre-war experience. The changes based on comparisons of money value are shown in percentage form below. For 1925 the percentages are based upon the figures for the ten months from January to October, and for 1913 on the figures for the year.

	(In Percentages) 1913	1925
Import of foodstuffs, beverages and livestock, as compared with total imports	29	34
Imports of raw materials and semi-finished articles, as compared with total imports	58	50
Imports of finished goods, as compared with total imports	13	16
Exports of foodstuffs, beverages and livestock, as compared with total exports	11	6
Exports of raw materials and semi-finished articles, as compared with total exports	22	18
Exports of finished goods, as compared with total exports	67	76

The second of the foregoing tables, that which deals with the physical volume of imports and exports, sheds some further light upon the movement of trade, though manifestly close deductions cannot be drawn from it because goods of diversified character and worth have been reduced to the common basis of weight. Whereas the money value of imported foodstuffs and beverages was consistently higher each month than the 1913 monthly average, the weight of such imports was consistently lower than in 1913, except in the two months of July and August when, as has been seen, foodstuffs were imported in fairly large volume by way of anticipating the effects of the tariff. Similarly, the weight of raw material imports has been consistently below the 1913 average. On the export side of the trade-balance there has been a noteworthy reduction in the volume of exported raw materials. This is in part accounted for by the large amount of coal, coke and lignite sent abroad by way of reparation deliveries. During the first Annuity year the average weight of such deliveries was about 1,000,000 tons a month. But after making allowance for these undeclared exports, raw materials and semi-manufactured products have not in any month moved abroad in a volume equalling that in 1913. In the main, however, the figures for physical volume illustrate the action of forces which have already been referred to in connection with the money-value of German foreign trade.

It is not without interest, in addition, to see the direction which the foreign trade of Germany has been taking in the current year, as compared with 1913. The following table, which shows the distribution according to countries during the first half of 1925, is based on statistics published by the Statistical Office of the Reich, and leaves out of account all countries the aggregate trade with which, both

export and import, amounted to less than 150 million reichsmarks during the period covered.

(In millions of reichsmarks)

Excess Imports 1925			Excess Exports 1925		
	Imports into Germany	Exports from Germany		Imports into Germany	Exports from Germany
United States ...	1,555	259	Netherlands	356	469
Great Britain ...	571	468	Switzerland.....	169	211
British India	355	90	Sweden	141	153
France.....	326	90	Austria	91	158
Argentina	323	121	Soviet Russia ...	74	96
Poland	278	230	Brazil.....	84	90
Czecho-Slovakia.	257	215			
Italy	246	166			
Belgium	199	94			
Denmark	174	162			
Dutch East Indies	166	48			
Australia	155	16			
Spain.....	112	77			

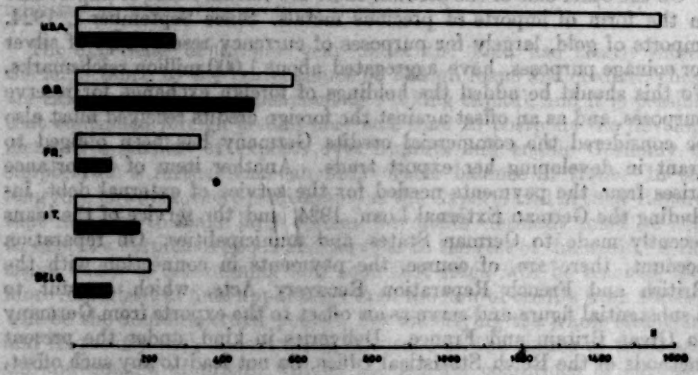
Figures for six average months of 1913, made up on the same basis as to volume of trade and from the same source, are given in the following table:

(In millions of marks)

Excess Imports 1913			Excess Exports 1913		
	Imports into Germany	Exports from Germany		Imports into Germany	Exports from Germany
United States .	855.5	356.6	Great Britain..	437.9	719.1
Russia	712.3	440.1	Austria-Hungary.....	413.7	552.4
British India ..	270.9	75.3	France	291.6	394.9
Argentine	247.3	132.9	Netherlands ..	166.5	346.8
Australia	148.0	44.2	Belgium	172.2	275.5
Brazil	123.9	99.9	Switzerland ...	106.6	268.0
Dutch East Indies	113.8	49.3	Italy	158.8	196.7
Spain	99.3	71.5	Denmark.....	95.9	141.9
			Sweden	112.1	114.9

It will be seen from the foregoing table that in six average months of 1913, there were excess exports in trade with nine principal countries, whereas in the first half of 1925, there were excess exports with six; and that in 1913 there were excess imports with eight countries, and in 1925 excess imports with thirteen. Also, it is to be noted that German trade with Great Britain, France, Belgium, Italy and Denmark has changed from a position of excess exports to one of excess imports.

In the diagram below is illustrated the foreign trade in the first half of 1925 between Germany and those countries which are her principal creditors under the Experts' Plan.



(In millions of reichsmarks)

Direction of German foreign trade.

First six months 1925.

White bars — Imports into Germany.

Black bars — Exports out of Germany.

In the first of the foregoing tables, that for 1925, and in the diagram exports of coal and other products delivered on reparation account to France, Belgium and Italy have been omitted, but on the other hand exports to Great Britain and France subject to the operation of the Reparation Recovery Acts have been included. The great excess of imports from the United States is doubtless attributable in part to the German credits obtained there.

d. Other items in the German balance of payments.

It is still impossible, owing to the difficulty of getting adequate figures, to construct anything like a balance of payments for the period since the Experts' Plan went into effect. Enough has been said, however, to indicate the relative importance of many of the items in the balance, and it is worth while to examine briefly some of the invisible factors in the account.

Reference has already been made to the important part loans and credits granted from abroad have played in providing funds to cover the importation of goods. But foreign credits have not been the only invisible item in the German balance of payments for the year. German shipping is again beginning to produce revenue, and in so far as its earnings are derived from the carriage of foreign goods or passengers, or the delivery of German goods to other countries, it plays its part in maintaining the balance. There is also some foreign income from services rendered by German banks and insurance companies. Another factor of some importance is the receipt of interest and dividends from investments still held abroad, and remittances from German emigrants living in foreign countries. In addition, there has been a temporary

item resulting from the repatriation of foreign banknotes, largely employed in Germany during the inflation for currency purposes but now no longer required.

On the other side of the account there are certain items of importance in the form of imports of precious metals. Since September 1, 1924, imports of gold, largely for purposes of currency reserve and of silver for coinage purposes, have aggregated about 1,000 million reichsmarks. To this should be added the holdings of foreign exchange for reserve purposes, and as an offset against the foreign credits received must also be considered the commercial credits Germany has been obliged to grant in developing her export trade. Another item of importance arises from the payments needed for the service of external debt, including the German External Loan, 1924, and the service of the loans recently made to German States and municipalities. On reparation account, there are, of course, the payments in connection with the British and French Reparation Recovery Acts, which amount to a substantial figure and serve as an offset to the exports from Germany to Great Britain and France. Deliveries in kind, under the present methods of the Reich Statistical Office, do not lead to any such offset, because these deliveries are not included in the reported figures for exports.

e. The meaning of the trade balance.

The analysis of German foreign trade already given has shown the movements of imports and exports through the first year of the operation of the Experts' Plan, and has indicated the forces that have been at work during the period. Consideration of these factors emphasizes the fundamental fact that the balance of trade is not an absolute thing, but that it represents the results of all the various forces that may be operating to affect imports and exports. German foreign trade, like that of other countries, is not to be gauged exclusively by the reported figures, but is to be regarded rather in the light of the forces that produce them. Some of these forces are certainly transitory. Others are likely to continue in greater or less degree for some time to come, and call for further brief discussion.

Much will depend upon the extent to which the next years are able to lower the barriers to trade that now exist, and to increase and encourage the interchange of goods between the nations. Some of the extreme prohibitions and restrictions put into effect immediately after the war proved in actual experience to be unprofitable and have already been removed. But many still remain and others have recently been imposed, in the form of protective tariffs or import restrictions against specific goods or discriminations against the products of certain nations. Under the conditions now confronting most European trade it is a question whether these obstacles to trade may not also prove uneconomic, even from the point of view of the countries which erected them. To countries such as Germany, which rely to a considerable extent upon exports for supporting quantity production, these barriers offer a problem of special difficulty; for, in order to meet competition in foreign markets, German manufacturers, unless they are able to offer special inducements in the shape of credit or quality or otherwise, must either lower unit costs of small-scale production to approximate those of

quantity production; or else they must sell goods at home at sufficiently high prices to permit them to cut prices abroad. Germany, where the domestic market is still narrow and even considerably below productive capacity, may be regarded as being now in the state of readjustment which this problem implies.

The experience of the first year under the Plan has clearly shown the importance to the tradebalance of foreign loans and credits. These are essential to the replenishment of working capital, and it is possible that continued foreign credits may still tend to postpone the development of a surplus of exports over imports and enable Germany to support for a further time an unfavorable balance of trade. In the long run, however, there is no doubt, as the Experts said in their Report, that in order to make large foreign payments Germany must be able to export a surplus of goods and services to the rest of the world. A decisive factor in determining how soon that stage will be reached, and more important in final application than the flow of credits from abroad, will be the domestic credit policy. For underlying the whole situation, and frequently with a controlling influence on the course of trade and the movements of prices, will be the general conditions of currency and credit, which depend largely upon the credit policy of the Reichsbank and the policy of the German public authorities in the administration of funds at their disposal.

In the field of reparation payments, it will not do to overlook the forces which the action of the Transfer Committee itself may set in motion. Under the Plan the Committee has wide powers to deal with the situation, internally and externally, so as to secure the maximum possible transfers without bringing about instability of the currency. The policy of the Committee itself, and the continued operation of the Experts' Plan, are sure to have an increasing effect on the course of foreign trade, and may themselves be helpful in producing the favorable balance that will be necessary to finance continued transfers.

Above all, there will be the question of the general tendency of the world's trade, and this alone may be almost a determining factor for the future. In the aggregate, the physical volume of the foreign trade of the world now approximates what it was before the war, but the distribution of it among the nations has much changed. As it develops and readjusts its directions, it may be that problems which now appear large will be thrown into a different perspective.

IX. Progress of Readjustment in German Business and Industry.

Throughout the first year of the Experts' Plan German business and industry have been passing through a further period of readjustment. This has been in many respects severe, and in some directions it has produced conditions approaching crisis. But at the same time it has been clear that the difficulties, however disturbing while they last, are inevitable accompaniments of deflation and of the return to stable conditions, and in that sense are necessary phases of the recovery it-

self. It was to be expected, after the excesses of inflation and the complete disorganization of business and industry which followed, that German economy would have to go through a period of depression and reorganization in order to meet the new conditions. Various phases of the situation have already been discussed, particularly in their relation to public finance and currency and credit conditions. Other aspects of the readjustment, as for example, the reorganization of industry and the general course of production and business activity remain to be considered.

a. Reorganization of industry.

The summary already given of credit conditions in Germany has indicated some of the problems confronting German industry under conditions of stabilization. Partly under the pressure of financial necessity and partly in order to reduce unit cost of production and distribution, two of the most characteristic types of German industrial concerns have been recently in process of more or less radical reorganization. Each was more or less the outgrowth of inflation, and found itself ill-adapted to cope with the change in business and credit conditions which came with stabilization.

The first type of organization, which proved peculiarly vulnerable, was the aggregated concern, whose credit difficulties have already been described in the chapter on currency and credit. This type of concern moreover, made up of a great number of enterprises united under common ownership and doing widely different kinds of business, offered extraordinary obstacles to economical administration. The outstanding concern of this character has now practically disintegrated, and its various parts are being either distributed or liquidated.

The second kind of industrial organization, far more numerous than the first, and in the aggregate of far greater financial importance, is the so-called vertical trust, which aims to carry its operations through all the stages of manufacture and distribution from raw material to finished product, and in some cases even up to the hands of the consumer. One of the principal causes of the growth of the vertical trust, in at least one branch of industry, was the problem of coal supply in Germany after the war. Large users of coal and coke, as, for example, the great iron and steel mills, felt it necessary at that time to control the sources of their fuel supply, and to acquire through the purchase of mines or by participation in mining syndicates the assurance of regular deliveries. On the other side, the great producers established close relations with the users of iron and steel, who also desired to be sure of obtaining necessary material, and at the same time undertook on their own account to manufacture machines and small steel products. A similar evolution took place in other branches of German industry.

The passing of the conditions which prompted its growth have made the vertical trust less and less an economical form of organization. It frequently led to overproduction and its general tendency was toward too high a level of costs. Whereas in times of large demand, the increased production of the newly established mills and shops could be absorbed, in times of lessened demands it led to non-production and

the duplication of output. Besides, the intimate relationships established for the supply of materials often prevented manufacturers from purchasing in the cheapest markets. Efforts have been made to eliminate some of these difficulties by agreement between competing manufacturers; for example, to scale the output of identical products, or in the case of specialized articles, to concentrate their manufacture in one mill to the exclusion of another. But this involved an exchange of rights between manufacturers, which it was found difficult to do on an equitable basis. A more workable solution has been to consolidate competitors with a more or less closely knit trust, thereby opening the way for concentrated production. The tendency in this direction seems to be growing increasingly definite. Three important combinations of this character have been recently formed; a fourth, involving some of the principal steel producers in western Germany, has been much discussed but has not as yet been consummated.

b. Physical volume of production.

Information as to the physical volume of production in Germany is still inadequate, and it is accordingly difficult to form a judgment as to the course of production as a whole. The subject is, however, one that is receiving an increasing measure of attention, and in some branches of industry and commerce figures are now available from which it is possible to get a fairly good indication of what has been done within the past year and even of some of the changes that have taken place as compared with previous years. It is of interest to examine some of the more important of these figures, particularly in their relation to the general situation of German business and industry.

(1) *Coal and coke.* — The output of coal in Germany during the twelve months ended September 1, 1925, amounted to about 132,000,000 metric tons. This represents a falling off of about 6 per cent from the output for the calendar year 1913, after making allowances for the changed frontiers and excluding also production in the Saar. In making comparisons with the pre-war level, it is necessary, however, to remember that the coal mining industry in many countries has been passing through a period of readjustment. In Germany, special forces doubtless have been operating at the same time, including on the one side the influence of lessened industrial activity, and on the other the stimulus to the production of coal for purposes of reparation deliveries. But all over the world the coal industry has been adjusting itself to new conditions resulting from reduced requirements due to the improved utilization of coal itself, and from the increasing use of coal substitutes, such as oil, water-power and lignite. Of these various substitutes, lignite is the one which up to the present appears to have found greatest employment in Germany, particularly in connection with the development of electrical energy. The production of lignite has increased as compared with 1913 by 57 per cent, and if reduced to its coal equivalent at the minimum ratio of 9:2, the total production of coal and lignite in terms of coal during the twelve months ended August 31, 1925, is found

to have somewhat exceeded that in 1913. The figures more fully appear in the following table:

(In thousands of metric tons)

	Coal	Lignite	Coal and coal equivalent of lignite
Total 1913 (present frontiers)..	140,753	87,228	160,137
Total 12 months (September 1924 — August 1925)	132,119	136,915	162,543
1924			
September.....	11,388	10,840	13,797
October.....	11,943	11,975	14,604
November.....	10,688	11,498	13,243
December	11,233	12,335	13,974
1925			
January.....	11,929	12,375	14,679
February.....	10,535	11,153	13,013
March	11,412	12,082	14,097
April	10,362	10,719	12,744
May.....	10,437	10,437	12,756
June.....	9,891	10,388	12,199
July.....	11,240	11,650	13,829
August.....	11,061	11,463	13,608
September.....	11,355	11,949	14,010
October.....	11,950	12,759	14,785

As will be noticed from these figures, the three spring months of 1925 were the months of lowest coal production. At that time, the stocks of coal in the Ruhr had become much enlarged and workings were reduced, and in some cases closed down altogether. Production in the Ruhr began to rise slowly in August, and increased activity in the German Upper Silesian fields, where customs difficulties with Poland reduced the import of coal into Germany from Polish Upper Silesia, accounted in part for the higher output for Germany as a whole during the summer and autumn. By September the rate of production had returned nearly to that of the winter months, and in October was considerably above it.

The production of coke, which has absorbed a substantial portion of the production of coal, has been 13 per cent below the 1913 level. The monthly average production in 1913 was 2,639,000 tons, and in the twelve months ended August 31, 1925, was 2,285,000 tons. The production diminished during the summer, in part owing to the lessened activity of the steel industry.

The deliveries of coal to creditor countries on reparation account during the first Annuity year amounted to 8,159,000 metric tons, the

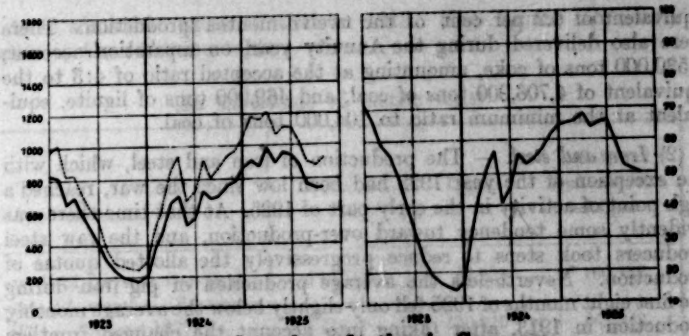
equivalent of 6.2 per cent of the twelve months' production. There were also delivered during the Annuity year, on reparation account, 3,580,000 tons of coke, amounting at the accepted ratio of 4:3 to the equivalent of 4,706,000 tons of coal, and 469,000 tons of lignite, equivalent at the minimum ratio to 104,000 tons of coal.

(2) *Iron and steel.* — The production of iron and steel, which with the exception of the year 1923 had been low since the war, reached a high point of activity in the early part of 1925. At that time there was evidently some tendency toward over-production, and the raw steel producers took steps to reduce progressively the allotted quotas of production. Nevertheless the average production of pig iron during the first eight months of 1925 fell only slightly below the average monthly production in 1913, after taking into account the changed frontiers and excluding the Saar, and steel production was at a somewhat higher rate than in that year. More recently, the rate of production of both has much diminished, as will be seen from the following table, which gives the figures published by the Union of German Iron and Steel Industrialists:

(In metric tons)

	Pig iron	Steel
Total 1913 (present frontiers, estimated)	10,915,700	11,768,400
Total 12 months (September 1924-August 1925)	10,338,586	12,588,052
1924		
September	696,744	866,510
October	759,193	939,701
November	786,019	968,657
December	872,971	1,049,211
1925		
January	909,849	1,180,908
February	873,319	1,155,351
March	990,606	1,209,294
April	896,362	1,064,420
May	960,441	1,114,746
June	941,201	1,108,748
July	885,880	1,031,019
August	765,901	899,487
September	734,935	878,333
October	741,741	928,339

The foregoing figures, which relate to the production within the present frontiers of Germany exclusive of the Saar, indicate that the production of pig iron during the twelve months ended August 31, 1925, constituting the first year of the Plan, was 95 per cent of that of 1913 and the production of steel 107 per cent of that of 1913. The following diagrams illustrate further the production of steel and pig iron during the last three years, and show also the output of blast furnaces in percentage of total estimated capacity.



Iron and steel production in Germany.

Dotted line — Steel production (in thousands of metric tons, monthly figures).
Black line — Pig iron production (in thousands of metric tons, monthly figures).
Pig iron production (in per cent of estimated capacity).

(3) *Potash.* — While the figures for the current production of potash are not available, the volume of potash sold, as reported by the Potash Syndicate, is a fair indication of its production. From the following figures, it appears that the sales of potash in the first eight months of 1925 were larger than during the full twelve months of either 1923 or 1924. Monthly figures for these years, and up to October, 1925, have been as follows:

(In metric tons)

	1923	1924	1925
January	96,140	40,800	166,546
February	99,197	72,108	201,868
March	35,387	108,836	143,959
April	22,386	56,066	66,773
May	120,766	22,043	73,074
June	184,851	27,654	81,447
July	115,598	47,298	95,603
August	66,442	102,491	104,437
September	50,724	127,171	101,196
October	22,251	78,711	73,538
November	33,443	74,065	
December	38,759	84,818	
Totals	885,944	842,061	1,108,441

(4) *Agriculture.* — The German crop of 1925, particularly with respect to wheat and rye, was materially larger than in 1924. This should mean diminished dependence upon foreign markets for essential food products during the coming year, and consequent relief to the trade-balance.

Final figures are not yet available, but the official estimates of the statistical offices of the States, showing the probable yield of the principal cereal crops as of August 1, 1925, are given in the following table. It will be seen that the 1925 crop remains considerably below the average crop for the three years 1911—1913, according to estimates of the Statistical Office of the Reich which have been compiled on the basis of the present German frontiers.

(In metric tons)

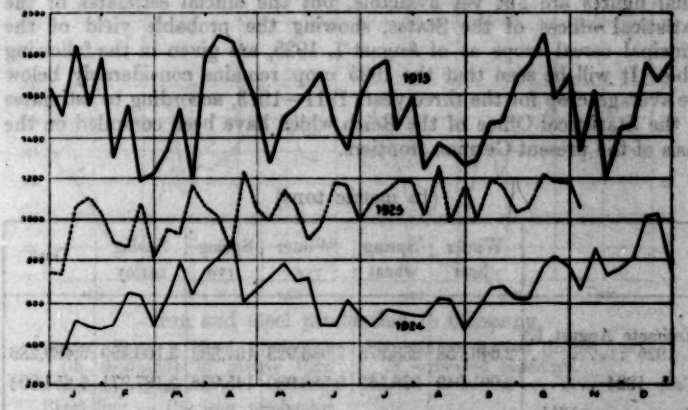
	Winter wheat	Spring wheat	Winter rye	Spring rye	Spring barley	Oats
Estimate August 1, 1925	2,646,753	256,275	7,536,925	131,532	2,160,499	5,489,286
Crop 1924	2,091,049	336,583	5,583,930	145,938	2,187,371	5,654,003
Average crop 1911–1913 (present frontiers)	3,320,080	444,965	9,453,439	131,590	2,870,132	7,680,348

c. Business activity.

The available figures showing various aspects of business activity in Germany are unfortunately more or less disjointed, and do not give a full picture of current business conditions. In point of activity, however, the figures make it clear that business turnover is consistently larger than a year ago, though in many respects still below the pre-war range.

Absence of speculative activity on the stock market and the prompt settlements required in most business transactions make figures for bank clearings fairly representative of business activity. The weekly volume of clearings carried on through the clearing section of the Reichsbank is about 70 per cent higher than it was a year ago, but it remains, even without correction for the difference in price level, about a third below what it was before the war. In 1913, however, the postal check system and other forms of clearing operations now of large importance had scarcely begun. It will be observed from the following diagram that the wide fluctuations which marked the course of clearings before the war, particularly around the quarterly periods, have now given way to a steadier flow of clearings from month to month, which is consistent with the general disposition on the part of German business to require immediate or monthly settlements and to discontinue the practice of quarterly settlements.

The receipts from the turnover tax are also indicative of a larger volume of business. This tax bears generally on the transfer of goods from hand to hand, not alone upon goods passing to the consumer but in the various preliminary stages of manufacture and distribution. The growth in receipts for the first quarter of 1925 was largely attributable to the seasonal activity of retail trade during the holidays, which showed itself in taxes paid after the first of the year. The following table takes into account the progressive reductions in the rate of the tax, and also the approximate lapse of time before transactions



Reichsbank weekly clearings.

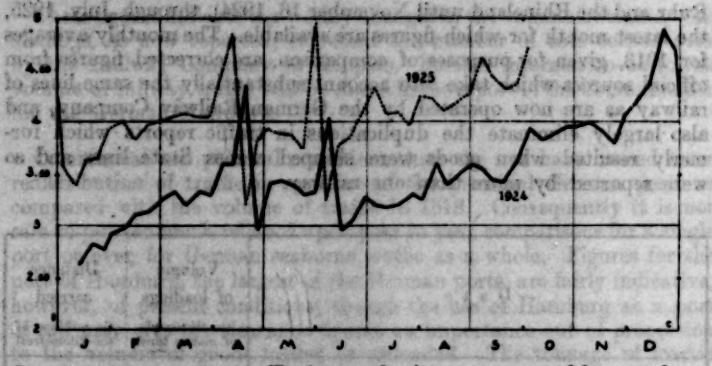
(In millions of reichsmarks)

subject to tax are reflected in the tax receipts. It should be added that there has been an improvement in the machinery of collection, bringing in additional receipts which tend to exaggerate somewhat the growth in the estimated turnover.

(In millions of reichsmarks)

Tax collection periods	Receipts	Related business periods	Tax rate (per cent)	Estimated turnover	Per cent of first quarter 1924
Feb.-April 1924 ...	378.0	Jan.-March 1924	2½	15,120	100
May-July 1924	422.3	April-June 1924	2½	16,892	111.7
Aug.-Oct. 1924. ..	481.6	July-Sept. 1924	2½	19,264	127.4
Nov.1924-Jan. 1925	494.4	Oct.-Dec. 1924	2	24,720	163.5
Feb.-April 1925 ...	376.7	Jan.-March 1925	1½	25,113	166.1
May-July 1925....	379.4	April-June 1925	1½	25,292	167.3
Aug.-Oct. 1925....	389.4	July-Sept. 1925	1½	25,960	171.7

Retail trade, reflected in the weekly figures reported by the German co-operative societies, has shown a marked rise as compared with 1924, but even without allowing for the changed price level it remains considerably below the average of 1913. The following diagram shows the average weekly purchase, largely of foodstuffs, made by each of the 1,700,000 members of German co-operative societies. It will be observed that the course of the figures for 1925 reproduces with remarkable fidelity that of the preceding year, and that now as then the tendency is gradually upward. The comparable average figure for the whole year of 1913 was 5.60 marks.



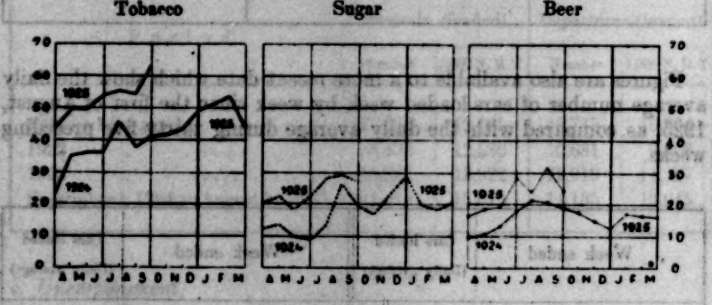
Co-operative stores. — Each member's average weekly purchase.

(In reichsmarks)

The receipts of tax revenues from beer, sugar and tobacco, to which further reference is made in the separate report of the Commissioner of Controlled Revenues, are from 25 to 40 per cent higher than a year ago, and give further evidence of increased purchasing power.

Receipts of controlled revenues

(in millions of reichsmarks — monthly figures)



d. Transport.

The average tonnage carried each month by the German railways in the first half of 1925 was 10 per cent below the 1913 level. But in 1925, freight was carried longer distances than in 1913, with the result that the number of ton-kilometres travelled in the first six months of this year was 10 per cent larger than in 1913. This result was obtained in spite of a decline in the volume of coal carried in proportion to the total tonnage of freight. The following figures, reported by the Reich Statistical Office, show the increase in traffic from November, 1924 (when the figures were only partially complete, since the German Railway Company did not acquire full operation of its lines in the

Ruhr and the Rhineland until November 16, 1924), through July, 1925, the latest month for which figures are available. The monthly averages for 1913, given for purposes of comparison, are corrected figures from official sources which take into account substantially the same lines of railway as are now operated by the German Railway Company, and also largely eliminate the duplications in traffic reports which formerly resulted when goods were shipped across State lines and so were reported by more than one railway.

Date	Volume of loadings (in thousands of metric tons)	Distance carried (in millions of ton-kilometres)
1913, monthly average (estimated)	33,250	4,286
November, 1924	29,430	4,607
December, 1924	29,590	4,598
January, 1925	30,520	4,880
February, 1925	29,600	4,714
March, 1925	31,980	5,026
April, 1925	29,800	4,545
May, 1925	30,030	4,657
June, 1925	28,940	4,478
July, 1925	32,900	5,127

Figures are also available to a more recent date which show the daily average number of cars loaded week by week since the first of August, 1925, as compared with the daily average during thirty-five preceding weeks.

Week ended	Cars loaded (Daily average)	Week ended	Cars loaded (Daily average)
August 8, 1925	118,157	October 3, 1925	125,787
August 15, 1925	118,132	October 10, 1925	128,699
August 22, 1925	122,144	October 17, 1925	133,728
August 29, 1925	122,988	October 24, 1925	134,638
September 5, 1925	122,366	October 31, 1925	135,106
September 12, 1925	124,198	November 7, 1925	131,788
September 19, 1925	125,745	November 14, 1925	129,404
September 26, 1925	125,245	November 21, 1925	138,114
Daily average for 35 weeks, November 30, 1924, to August 1, 1925			116,631

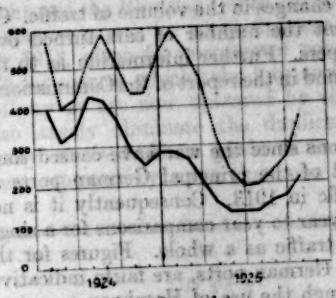
These figures indicate the weekly changes in the volume of traffic. Car loadings, as now reported, represent the number of cars turned over by the Railway Company to shippers. Further information as to the volume of railway traffic will be found in the report of the Commissioner for the German Railways.

Commercial and political conditions since the war have caused some redistribution of traffic in and out of the principal German ports as compared with the volume of traffic in 1913. Consequently it is not safe to put too much reliance upon year to year comparisons for a single port or even for German seaborne traffic as a whole. Figures for the port of Hamburg, the largest of the German ports, are fairly indicative, however, of present conditions, though the use of Hamburg as a port of call may give the clearance figures an importance out of proportion to the volume of goods loaded or unloaded. The tonnage of loaded vessels entering and leaving Hamburg for many months has approximated or been somewhat in excess of the traffic in 1913. For the twelve months ended August 30, 1925, the tonnage of loaded ships arriving at Hamburg was 19 per cent larger than during the year 1913, and the tonnage of loaded ships leaving the port was 26 per cent larger than in 1913. The total number of ships entering and leaving the port, however, was somewhat diminished owing to an increase in their average size in the interval. In September of 1925, a considerable reduction in the movement of shipping in and out of Hamburg was reported, coinciding with a lessened volume of German imports for that month. The figures more fully appear in the following table:

Period	Arrivals (loaded)		Departures (loaded)	
	Number	1,000 N. R. T.	Number	1,000 N. R. T.
1913 (whole year)	12,700	13,085	13,745	10,324
1922 „	8,590	12,536	10,631	9,868
1923 „	10,587	13,922	12,919	11,327
September 1, 1924, to August 31, 1925	11,615	15,615	14,135	13,045

e. Unemployment.

Absolute figures showing the extent of unemployment in Germany do not exist, but there are three sets of figures which illustrate its growth or decrease. These figures, while pointing in the autumn months of 1925 to a marked increase in unemployment, still indicate a lower range than a year ago. The number of unemployed receiving public assistance, and the number of unemployed members of reporting trades-unions at the end of October 1925, were 25 and 15 per cent, respectively, below the respective figures for the year before. A third basis for estimating the degree of unemployment is the number of employees registered for public health insurance. Decreased registrations ordinarily reflect an increase in unemployment. Comparisons of these three sets of figures are given in the following diagrams.

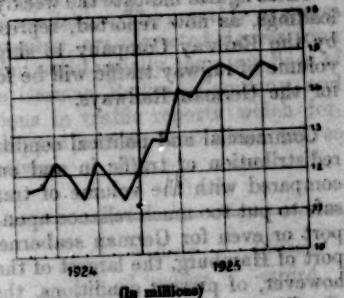


(In thousands)

Unemployment.

Dotted line. — Unemployed persons receiving public assistance.

Black line. — Unemployed reported by trades-unions.



(In millions)

Employment.

Employees registered for public health insurance.

From mid-winter of 1925 until July unemployment steadily diminished; since then there has been a rather constant tendency for it to increase, coinciding with seasonal variations in farm-work and more or less widespread inactivity in certain industries. The following table gives comparative figures since the end of August, 1924, which will indicate the general developments in each category. There is room for conjecture because of variation from month to month in the number of reporting offices.

End of wonth	Trades-union members reported unemployed	Unemployed receiving public assistance	Employees registered for public health insurance
1924			
August	419,440	588,485	11,432,273
September	362,997	513,496	12,282,788
October	287,449	435,321	11,845,949
November	251,244	436,607	11,365,832
December	282,645	535,529	12,120,221
1925			
January	283,797	593,024	12,843,088
February	264,263	540,460	12,805,046
March	211,259	465,761	14,076,284
April	156,943	319,656	13,902,307
May	129,933	233,463	14,473,399
June	130,249	195,099	14,714,469
July	131,966	197,248	14,459,328
August	154,032	290,727	14,301,182
September	168,657	366,078	14,717,001
October	214,054	363,784	14,546,143
Novembre 15		471,333	

f. Commercial failures.

Generally speaking commercial failures in Germany since stabilization appear to have been below rather than above the monthly average during 1913. In the middle of 1924 there was a marked but temporary rise accompanying the active restriction of credit then in process. Again in the autumn of 1925 a sharp increase occurred, reflecting in some measure the difficult conditions confronting business and industry.

Two thirds of the concerns which have failed during the year were organised since 1919, and so included many which had their origin under conditions of inflation. Also, in every month since January 1924, failures of distributing concerns, including those in wholesale and retail trade, exceeded industrial failures. The present troubles must in large part be regarded as constituting a necessary phase of the readjustment to stable conditions.

In the table below the figures for commercial failures are supplemented with figures showing the number of firms placed under public supervision. The practice of placing firms under supervision was inaugurated in 1914 in order to conserve the resources of embarrassed concerns. The German Government now regards the practice as inexpedient and has made its termination, now in prospect, a part of the Government's program to reduce the cost of living. In comparing the commercial failures during 1924 and 1925 with those in 1913, it should be understood that a certain proportion of the firms included under the heading of those placed under public supervision would under other circumstances have appeared in the list of commercial failures. The following figures are those of the Statistical Office of the Reich. Monthly figures for supervised concerns were first published in June, 1924.

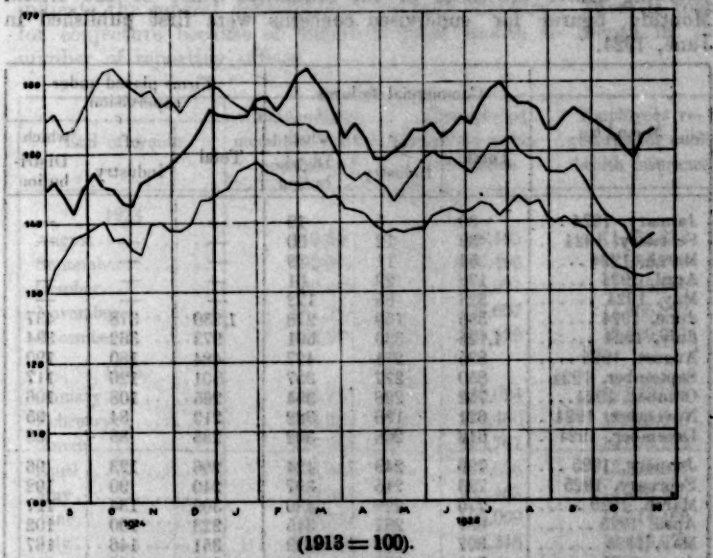
Months	Commercial failures			Firms placed under supervision		
	Total	of Industry	which Distribution	Total	of Industry	which Distribution
January, 1924 ...	30	5	19	—	—	—
February, 1924 ..	39	12	20	—	—	—
March, 1924	54	11	39	—	—	—
April, 1924	139	22	81	—	—	—
May, 1924	326	65	173	—	—	—
June, 1924	586	159	278	1,230	378	437
July, 1924	1,125	330	561	973	362	394
August, 1924	895	271	427	484	180	190
September, 1924 .	860	277	397	301	126	117
October, 1924....	752	228	354	265	108	106
November, 1924 .	621	180	322	219	84	95
December, 1924..	616	206	302	235	88	88
January, 1925 ...	796	249	424	256	123	96
February, 1925 ..	723	215	397	240	90	102
March, 1925	776	229	480	309	134	127
April, 1925	687	237	345	223	100	102
May, 1925	807	273	429	351	146	167
June, 1925	766	262	409	328	143	157
July, 1925	797	291	403	375	154	178
August, 1925	751	265	379	379	180	163
September, 1925 .	914	378	424	459	220	183
October, 1925....	1,164	464	541	633	282	264

The monthly average of commercial failures in 1913 was 815, as compared with 504 during 1924 and 818 during the first ten months of 1925.

g. Commodity prices.

Wholesale commodity prices in Germany were at nearly the same general level in September, 1925, as a year previously; but then wholesale prices were in process of rising while in 1925 they were declining. The rise which began about a year ago lasted with some interruption until January; then followed a decline until May which after a two months' interval continued at an accelerated rate into the autumn.

These movements, in so far at least as the prices of basic commodities are concerned, have been following much the same course as prices in England and the United States. It is true that comparisons with the 1913 average, at least on the basis of commodity price indexes, show German prices to have been consistently lower throughout the year than British or American prices. But this appears to be a reflection rather of the high level of German prices in 1913, as compared with prices in Great Britain and America, than of a relatively low level at this time. German statisticians point out, for example, that in 1913 German prices for the principal cereals showed the effect of protective duties up to possibly 25 per cent of their domestic selling prices. During the current year, on the other hand, up to September 1, 1925, there were no German duties on the import of cereals. The German prices have



(1913 = 100).

Basic commodity prices in three countries.

Dotted line. — Great Britain (Federal Reserve Bank of New York index).
Black line. — United States (Federal Reserve Bank of New York index).
Light line. — Germany (Economic Service index).

been free therefore to relate themselves to prices in the world market, and the duties recently imposed by the new tariff law have not yet had time, for various reasons, to have any material effect on domestic cereal prices. Inasmuch as cereal prices are important elements in the make-up of basic commodity price indexes, the result has been to give to the index of German prices an appearance of more moderate rise than is the case either in England or the United States. In consequence, the price indexes illustrated above are valuable more for the purpose of showing the general correspondence of price movements in the three countries rather than for comparing the absolute levels of prices. Each of the three indexes covers twenty basic commodities, not identical for each country but of generally comparable importance.

Of particular interest to Germany are the changes in the actual prices in terms of gold (marks or reichsmarks) which are reflected in the German index. These are shown in the following table, which gives also in terms of percentages the relation between the wholesale price in reichsmarks of each commodity on November 5, 1925, and the average price of that commodity in 1913.

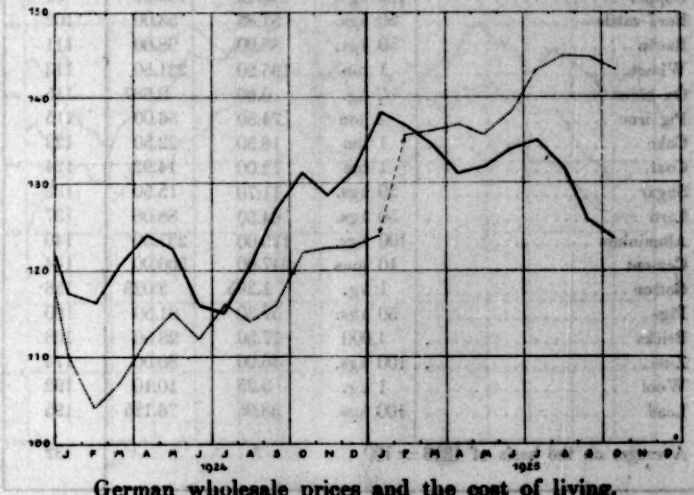
(Prices in terms of gold, i. e., marks and reichsmarks.)

	Quantity	1913 Average	Nov. 5, 1925	Per cent of 1913
Potatoes	50 kgs.	2.71	1.75	65
Rye	1 ton	162.50	140.50	86
Copper	100 kgs.	146.19	139.50	95
Beef cattle	50 kgs.	51.85	53.00	102
Bacon	50 kgs.	88.00	98.00	111
Wheat	1 ton	195.20	221.50	113
Ox-hides	½ kg.	0.60	0.687	115
Pig iron	1 ton	74.50	86.00	115
Coke	1 ton	18.50	22.50	122
Coal	1 ton	12.00	14.92	124
Sugar	50 kgs.	11.70	15.50	132
Lard	50 kgs.	64.50	88.08	137
Aluminium	100 kgs.	170.00	237.50	140
Cement	10 tons	347.00	500.00	144
Cotton	1 kg.	1.295	2.023	156
Pigs	50 kgs.	57.30	91.50	160
Bricks	1,000	17.50	28.50	163
Zinc	100 kgs.	46.00	80.00	174
Wool	1 kg.	5.25	10.10	192
Lead	100 kgs.	38.95	76.125	195
Average, on the basis of 1913 = 100				132

The commodities in the foregoing list not only have a ready domestic market, but are likely to reflect promptly price changes in the world market. For the most part identical grades of commodities have

been quoted, but it is possible that the disturbing effect of varying quality has not been wholly removed. If Germany is dependent for her marginal supply of any of these commodities upon the world market, a tariff charge is apt to enter sooner or later into the domestic price. While November 5, 1925, was some two months after the reimposition of tariff duties on cereals and livestock, the large imports of such products prior to the effective date of the tariff, together with credit conditions within Germany which tended to bring the new German crop promptly to market, have retarded the effect of the tariff on the wholesale prices of those commodities. In large degree, therefore, the current wholesale prices of cereals and livestock, as well as of some other elements in the index, are free trade prices, and the comparison is with 1913, a year of protected prices. The reimposition of 1913 tariffs, in the absence of other forces operating in a contrary direction, is likely to bring about a rise in the prices of protected commodities not only to the level of 1913, but even above it, in somewhat the same degree that the world price level in terms of gold is now above that of 1913.

Whatever may be the future of wholesale prices, retail prices in Germany appear, not only from the index figures of the Statistical Office of the Reich, but also from a comparison of absolute prices, to be at this time materially higher in comparison with pre-war conditions than are goods at wholesale. For example, the average price of three grades of beef cattle on the hoof on July 15, 1925, was 95 per cent of the price in 1913, whereas the wholesale meat price was 119 per cent and the retail price 136 to 150 per cent of the comparable prices in 1913. While naturally the same percentages do not apply through



German wholesale prices and the cost of living.

Black line. — Wholesale prices (Reich Statistical Office index; 100 = 1913 yearly average.)

Dotted line. — Cost of living (Reich Statistical Office index; 100 = average of four months in 1913-14.)

all categories of products, and as in all comparisons involving retail prices there is often a wide variation according to quality and place of purchase, the general rule appears to hold that a larger proportion of the retail price goes to the converter and distributor than before the war.

The relationship between wholesale prices and the cost of living, both reflected in index numbers of the Statistical Office of the Reich, is illustrated in the foregoing diagram, covering the last two years. It should be noted that the difference here indicated is probably less than the actual experience of many Germans would justify, and there has, in fact, been much complaint that the cost-of-living index is too low. One reason given in explanation is that the index takes account of rents, which are still largely subject to official restriction, though gradually being restored to more normal levels. In January, the base of the index was broadened, which accounts for the break in the line in the diagram, but the moderating effect of rents is still apparent.

The spread between wholesale and retail prices is a matter of constant discussion. It appears to be due to a variety of causes, some of which are left over from the period of inflation. Merchants then formed the habit of including in the prices of the goods they sold a substantial fraction as insurance against the risk of currency depreciation. This led, after stabilization, to abnormally large margins of retail profit, which to some extent still persist. Furthermore, there has been a great increase in the number of middlemen, owing in part also to changed conditions following the war. Many persons formerly of independent means or engaged in the army have gone into trade in one form or another. In the long run, the keener competition that might be expected to result should tend to reduce prices. But other factors up to the present appear to have prevented it, and the existence of additional middlemen places a burden on distribution which is reflected in high prices. Beyond all this, there is a manifest tendency toward over-organization in retail trade as well as in many branches of productive activity, and this has resulted in added costs not merely in individual cases but also in trade and business generally. It is important also not to overlook the psychological fact that, in comparison with the paper prices the people were accustomed to pay during the inflation, present prices in Germany, quoted in terms of gold, seem low. Consequently, as in other countries recovering from inflation, there was for some time but little pressure for lower prices, and it is only quite recently that price resistance among consumers has begun to develop. This has been stimulated within the past few months by special measures announced by the Reich Government for the purpose of reducing the cost of living. How far the action of the Government in pressing for lower prices will be effective, remains to be seen. Its campaign seems to contemplate chiefly such measures as the restraint of cartels from action leading to high prices, the restoration of free competition in the placing of contracts for public work, the abolition of the practice of providing official supervision for firms which otherwise would have to go into bankruptcy, and the administration of public funds in such a way as to lower the going rates of interest. It is not unlikely that the chief importance of the Government's action will be to concentrate attention on the abnormally high differential between retail and wholesale prices and to encourage a

substantial amount of public resistance to excessive prices. Apart from what may prove to be the influence of general movements of world prices, the economic effect in the long run of some of the Government's measures would seem to be more probably in the direction of higher than lower prices. Its proposals, for example, to depress interest rates artificially through the lending of public funds below the Reichsbank rate, could hardly avoid causing some expansion of credit, with a resulting tendency toward higher commodity prices and a possible further stimulus to the movement already to be anticipated in consequence of the new tariff schedules.

X. Conclusions

The adoption of the Experts' Plan by agreement between Germany and the Allied Powers represented a decision in favor of the rational settlement of the reparations problem, and an election at the same time in favor of the peaceful reconstruction of Europe. The Experts themselves, in concluding their Report, had said that "the reconstruction of Germany is not an end in itself. It is only part of the larger problem of the reconstruction of Europe." In considering, therefore, the progress of the Plan it is appropriate to think of it in relation to the general problem of European reconstruction as well as in terms of the rehabilitation of Germany.

From the point of view of German reconstruction, it is already clear that the Plan marked the determining point in the recovery from the disorder and disorganization of the inflation, and that developments since its adoption are to be estimated in terms of the part they have played in the readjustment to stable conditions and the restoration of the German economy to a productive state. It is clear also, from the review that has been given of credit and business conditions, that the road to recovery is not yet fully travelled and that many difficulties remain to be overcome. At the same time it would be wrong to overlook the progress that has already been made under the Plan. To appreciate this sufficiently one must think back to conditions as they were before its adoption, and remember the fog that enveloped the whole situation before the Plan went into effect.

The Plan has realized during the first year its two essential preliminary objects, that is to say, a balanced budget and a stable currency. Without these it was impossible to look forward to the recovery of German business and industry. The budget, in fact, has been rather more than balanced, and for the time being at least the Government has instead, and on a unique scale, the reverse problem of wise management of the public funds. As for the currency, its stability has been fully maintained, according to both internal and external standards, and buyers and sellers alike have again been able to do business with the assurance that stability implies. Side by side with the achievement of these two objects, the output and distribution of goods, according to the available figures, have considerably exceeded the experience of the immediately preceding years, and have begun to resemble those before the war. At the same time, German business and industry have found themselves confronting the double problem of replenishing their work-

ing capital and of remoulding their organisation along lines that the changed conditions require. In some industries this has meant conditions approaching crisis, which must properly be regarded as inevitable phases of the return to stable conditions and as marking a further stage of readjustment.

From the point of view of reparation payments, the Plan has brought order into the management of the problem, and assured the determination by actual experience of the reparations that can safely be paid and transferred. Under it, payments and deliveries are moving regularly to the creditor Powers, and in accordance with expectation. From its very beginning, moreover, the administration of the Plan has gone forward on the basis of mutual faith and confidence, and the Allied Governments, the German Government and all the various agencies concerned in its execution have worked together to carry out the Plan in the spirit in which it was conceived.

Respectfully,

S. PARKER GILBERT,

Agent General for Reparation Payments.

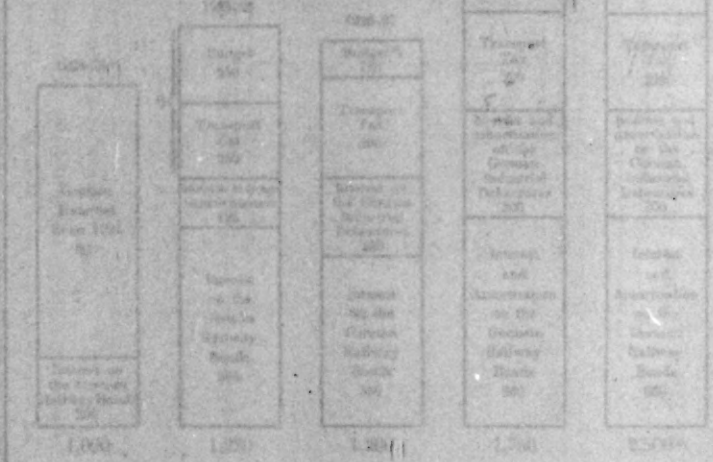
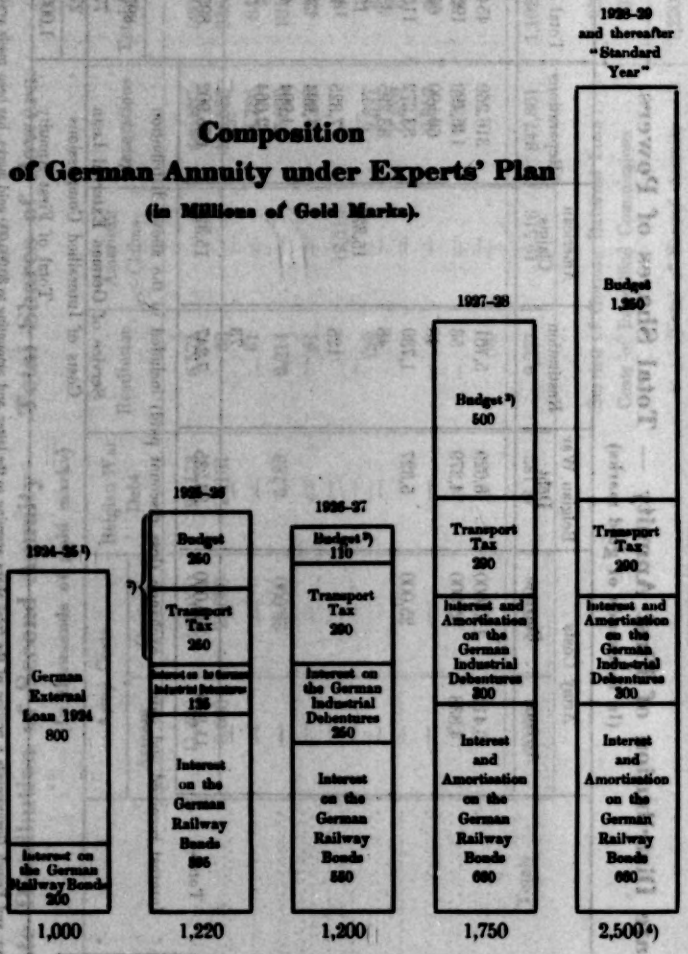


Exhibit I.

Composition of German Annuity under Experts' Plan

(in Millions of Gold Marks).


1924-25 ¹)
German External Loan 1924 800
Interest on the German Railway Bonds 200
1,000
1925-26
Budget 250
Transport Tax 250
Interest on the German Industrial Debentures 125
Interest on the German Railway Bonds 595
1,220
1926-27
Budget ²) 110
Transport Tax 290
Interest on the German Industrial Debentures 250
Interest on the German Railway Bonds 550
1,200
1927-28
Budget ²) 500
Transport Tax 290
Interest and Amortisation on the German Industrial Debentures 300
Interest and Amortisation on the German Railway Bonds 660
1,750
1928-29 and thereafter "Standard Year"
Budget 1,250
Transport Tax 290
Interest and Amortisation on the German Industrial Debentures 300
Interest and Amortisation on the German Railway Bonds 660
2,500 ⁴)

¹) Annuity year. — September 1st to August 31st.

²) These involve a possible charge on the German budget, though the Experts' Plan assumes that before the end of the year 1928-29 the German Government will be in effective possession of 500,000,000 gold marks (a sum equivalent to the two payments) as its share (one quarter) of the proceeds of the sale to the public of the preference shares of the German Railway Company. An arrangement has recently been concluded between the German Government and the German Railway Company whereby the latter issues to the German Government 500,000,000 gold marks, nominal amount, of its preference shares in satisfaction of the Government's share in the proceeds of the sale of preference shares, subject to the right of the Company to reobtain possession of the shares, on certain conditions, for the purpose of sale to the public.

³) Subject to modification, to an extent not exceeding 250,000,000 gold marks, according as the aggregate yield of the controlled revenues exceeds or falls short of 1,050,000,000 gold marks in 1928-29 or 1,250,000,000 gold marks in 1987-88, the modification to be 1/3 of the excess or deficit as the case may be, all as provided in the Plan.

⁴) Subject to increase, as from 1929-30 onwards, depending on the index of prosperity described in the Plan.

Exhibit II.

Approximate Distribution of First Annuity — Total Shares of Powers.

(In thousands of gold marks)

	Army Costs		Belgian War Debt	Restitution	American Claims	Reparations	Total Share
	Arrears	Current					
1. France	6,412	110,000	16,629	5,161	—	316,269	454,471 [1]
2. British Empire	4,838	25,000	14,279	53	—	146,499	190,669
3. Italy	—	—	—	48	—	66,590	66,638
4. Belgium	—	25,000	5,327	1,739	—	83,272	115,338 [1]
5. Serb-Croat-Slovene State	—	—	—	48	—	33,295	33,343
6. United States of America	—	—	—	—	15,328	—	15,328
7. Rumania	—	—	—	125	—	7,325	7,450
8. Japan	—	—	—	—	—	4,994	4,994
9. Portugal	—	—	—	—	—	4,994	4,994
10. Greece	—	—	—	—	—	2,664	2,664
11. Poland	—	—	—	73	—	—	73
Totals	11,250	160,000	36,235	7,247	15,328	665,902	895,962
Interest received and gain in exchange (less discount paid) included in the above distribution							255
							895,707
Service of German External Loan							77,006
Costs of Interallied Commissions							27,287
Total of First Annuity							1,000,000

Note: This table has been revised so as to give effect in its decisions of the Reparation Commission taken after the close of the first Annuity year. Its figures, therefore, differ slightly from the similar figures in Exhibit VI.

[1] By agreement between the Belgian and French Governments a portion of the total share accruing to the latter, and amounting to 30,000,000 gold marks, has been made available to the former.

Exhibit III.

Approximate Distribution of Second Annuity — Total Shares of Powers.

(In thousands of gold marks)

	Army Costs		Belgian War Debt	Restitution	American Claims	Reparations	Total Share
	Arrears	Current					
1. France	11,400	110,000	21,178	6,571	—	440,887	590,031
2. British Empire	8,600	25,000	18,181	68	—	186,530	238,379
3. Italy	—	—	—	61	—	84,786	84,847
4. Belgium	—	25,000	6,788	2,214	—	67,829	101,826
5. Serb-Croat-Slovene-State	—	—	—	61	—	42,393	42,454
6. United States of America	—	—	—	—	19,516	—	19,516
7. Roumania	—	—	—	159	—	9,327	9,486
8. Japan	—	—	—	—	—	6,359	6,359
9. Portugal	—	—	—	—	—	6,359	6,359
10. Greece	—	—	—	—	—	3,391	3,391
11. Poland	—	—	—	93	—	—	93
Totals	20,000	160,000	46,187	9,227	19,516	847,861	1,102,741
						Service of German External Loan	93,959
						Costs of Interallied Commissions	23,300
						Total of Second Annuity	1,220,000

Exhibit

Balance Sheet.

Assets.	Gold Marks
I. **Bank Balances** and other funds available upon demand valued at the fine gold rate	107,013,270.89
II. **Accounts Receivable** from Belgium for deliveries of combustibles as per information supplied by the National Representative	502,821.64
III. **Advance Payments.** — Advances to Trustees of German External Loan 1924 to accelerate Bond redemptions	4,489,118.80
	112,005,211.33

We have audited the above balance sheet and certify that it is in accor-
liabilities of the Agent General for Reparation Payments at August 31, 1925.

Berlin, November 16, 1925.

Exhibit IV.

August 31, 1925.

Liabilities	Goldmarks	Gold marks
IV. Accounts payable.		
(a) Service of the German External Loan 1924..	3,965,065.29	
(b) Reichsmarks advanced by German Government to Armies of Occupation	1,964,319.70	
(c) Suspense account for requisitions and damages under Art. 6 of Rhineland Agreement as claim d by German Government	1,800,000.00	
(d) Reparation Recovery Acts. — balances owing to German exporters calculated from certificates of collections given by French and British Governments.....	3,962,948.55	
(e) Deliveries of coal, coke and lignite as estimated by Reparation Commission Office for Deliveries in Kind.....	19,928,249.69	
(f) Transport of coal, coke and lignite as per information supplied by National Representatives	6,926,881.14	
(g) Deliveries of Dyestuffs and Pharmaceutical Products	139,900.68	
(h) Deliveries of Chemical Fertilisers.....	3,325,644.46	
(i) Miscellaneous Deliveries.....	3,291,737.74	
		45,324,747.25
V. Allied and Associated Powers — funds allocated and uncovered by payments or outstanding liabilities calculated on the basis of the schedule of distribution of the First Annuity as provisionally adopted by the Reparation Commission:		
(a) France.....	23,802,218.57	
(b) British Empire.....	167,946.15	
(c) Italy	2,326,470.01	
(d) Belgium.....	15,965,217.22	
(e) Serb-Croat-Slovene State.....	1,910,078.20	
(f) United States.....	15,308,000.00	
(g) Rumania	Dr. 2,225.43	
(h) Japan.....	1,144,667.54	
(i) Portugal	27,121.95	
(j) Greece.....	Dr. 364.43	
(k) Poland.....	32,820.88	
		60,681,950.66
VI. Funds unallocated.		
(a) Appropriations for service of German External Loan and other prior charges not required for those purposes	1,254,624.33	
(b) Reserve for service of German External Loan, 1925/26	4,489,118.80	
(c) Interest received and gain in exchange (less discount paid)	254,770.29	5,998,513.42
		112,005,211.33

dance with the books and in our opinion correctly sets forth the assets and

Price, Waterhouse & Co.

Exhibit

Statement of Receipts and Payments

(September 1, 1924

Receipts	Gold marks
I. German External Loan 1924	800,000,000.00
II. Railway reparation bonds. — Interest for the year received from Deutsche Reichsbahn Gesellschaft	200,000,000.00
III. Collections in occupied territory retained during the Transition Period by the French and Belgian Governments to cover costs of collection of customs, etc. (See Annex II b to the Agreement of August 9, 1924. — Art. IV b and c)	2,288,288.28
IV. Interest received	282,573.62
V. Gain in exchange	163,989.85
Total	1,002,780,905.75

We have audited the books and accounts of the Agent General for Reparation statement is correctly prepared therefrom and in our opinion properly sets

Berlin, November 18, 1925.

Exhibit V.

for the First Annuity Year.

August 31, 1925.)

Payments	Gold marks	Gold marks
VI. Allied Powers:		
(a) *France:*		
1. Marks supplied to Army of Occupation	24,012,474.94	
2. Requisitions and damages under Art. 6 of Rhineland Agreement	11,130,000.00	
3. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	64,991,640.00	
4. Furnishings in the Ruhr	26,454,138.65	
5. Reparation Recovery Act	25,080,220.95	
6. Deliveries of coal, coke and lignite	156,212,112.85	
7. Transport of coal, coke and lignite	53,161,378.70	
8. Deliveries of dyestuffs and pharmaceutical products	5,163,079.35	
9. Deliveries of chemical fertilizers	19,655,962.09	
10. Miscellaneous deliveries	20,705,135.50	
(b) *British Empire:*		396,570,043.33
1. Marks supplied to Army of Occupation	14,626,267.11	
2. Requisitions and damages under Art. 6 of Rhineland Agreement	70,000.00	
3. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	15,460,460.00	
4. Reparation Recovery Act	155,172,144.85	
5. Deliveries of dyestuffs and pharmaceutical products	4,535,634.74	
(c) *Italy:*		189,863,496.74
1. Deliveries of coal, coke and lignite	36,201,410.96	
2. Transport of coal, coke and lignite	18,294,975.58	
3. Deliveries of dyestuffs and pharmaceutical products	8,964,156.97	
4. Miscellaneous deliveries	1,732,960.51	
(d) *Belgium:*		60,374,403.89
1. Marks supplied to Army of Occupation	3,654,393.64	
2. Requisitions and damages under Art. 6 of Rhineland Agreement	700,000.00	
3. Furnishings to Army under Arts. 8—12 of Rhineland Agreement	12,317,990.00	
4. Furnishings in the Ruhr	4,009,062.67	
5. Deliveries of coal, coke and lignite	44,679,561.91	
6. Transport of coal, coke and lignite	11,893,312.41	
7. Deliveries of dyestuffs and pharmaceutical products	5,748,544.60	
8. Deliveries of chemical fertilizers	280,619.70	
9. Miscellaneous deliveries	12,313,756.94	
(e) *Serb-Croat-Slovene State:*		93,467,000.07
1. Deliveries of pharmaceutical products	39,403.07	
2. Miscellaneous deliveries	30,043,341.43	
(f) *Rumania:*		30,082,744.50
Miscellaneous deliveries	—	7,394,226.43
(g) *Japan:*		
Deliveries of dyestuffs and pharmaceutical products	—	3,809,333.46
(h) *Portugal:*		
Miscellaneous deliveries	—	4,794,599.86
(i) *Greece:*		
Miscellaneous deliveries	—	2,642,894.43
(k) *Poland:*		
Miscellaneous deliveries	—	40,179.12
Total in respect of powers	—	793,885,195.03
VII. Service of German External Loan 1924	—	77,339,576.60
VIII. Inter-Allied Commissions:		
1. Reparation Commission	6,280,090.20	
2. Office for Reparation Payments	3,700,000.00	
3. Inter-Allied Rhineland High Commission	9,428,897.84	
4. Military Inter-Allied Commission of Control	7,780,789.81	
5. Naval Inter-Allied Commission of Control	70,000.00	
IX. European Commission of the Danube	—	28,500,627.45
X. Cost of Collection of customs etc. in Occupied Territory during the Transition Period	—	216,106.33
XI. Discount on payment made by Deutsche Reichsbahn Gesellschaft in advance of due date	—	3,332,332.33
Total payments	—	203,972.16
XII. Balance of cash at August 31, 1925	—	898,777,634.80
Total	—	107,013,270.89
		1,005,790,905.75

Payments from September 1, 1924 to August 31, 1925 and certify that the above sets forth the receipts and payments during the first Annuity year.

Price, Waterhouse & Co.

Distribution of the Amount available fo

	Total amount available for expenditure Sept. 1, 1924 to August 31, 1925 gold marks	Total payments to August 31, 1925 gold marks
1. France	451,690,000.00	396,579,048.33
2. British Empire	190,410,000.00	189,883,496.74
3. Italy	66,108,000.00	60,374,403.89
4. Belgium	113,924,000.00	98,487,000.07
Repayment due for excess tonnage	—	—
5. Serb-Croat-Slovene State	38,675,000.00	30,060,743.69
6. United States of America	15,808,000.00	—
7. Rumania	7,392,000.00	7,394,225.43
8. Japan	4,954,000.00	3,809,332.46
9. Portugal	4,954,000.00	4,724,399.86
10. Greece	2,642,000.00	2,642,364.43
11. Poland	73,000.00	40,179.12
Totals in respect of Powers	890,534,000.00	793,995,189.02
12. Service of German External Loan 1924:		
(*a*) For first Annuity year	77,500,000.00	78,040,457.80
(*b*) Advance to Sinking Fund on account of instalment payable in second Annuity year	4,500,000.00	4,469,118.80
13. Inter-Allied Commissions:		
(*a*) Reparation Commission	5,550,000.00	5,550,000.00
(*b*) Office for Reparation Payments	3,700,000.00	3,700,000.00
(*c*) Rhineland High Commission	10,000,000.00	9,429,987.64
(*d*) Military Commission of Control	8,000,000.00	7,830,789.81
14. European Commission of the Danube	216,000.00	216,106.33
Total of First Annuity	1,000,000,000.00	893,241,499.40
15. Cost of Collection of Customs, etc. In the occupied territory during the transition period	8,333,333.33	8,333,333.33
Total receipts from German Government	1,008,333,333.33	896,574,832.73
Add incidental receipts:		
Interest received	298,572.82	—
Less discount paid	—	202,802.16
Gain in Exchange	163,999.63	—
Total	1,008,799,905.78	896,777,634.89

Exhibit VI.

Expenditure during First Annuity Year.

Outstanding liabilities at August 31, 1925	Total payments and outstanding liabilities at August 31, 1925	Powers' balances at August 31, 1925 (per balance sheet)	
		Funds allocated and uncovered by payments or outstanding liabilities	Funds unallocated
gold marks	gold marks	gold marks	gold marks
31,317,738.10	427,896,781.43	23,802,218.57	—
378,557.11	190,242,053.85	167,946.15	—
3,402,126.10	63,776,529.99	2,326,470.01	—
Dr. 4,974,694.35	97,958,782.78	15,965,217.22	—
Cr. 502,821.64	—	—	—
1,084,178.11	31,164,921.80	1,910,078.20	—
—	—	15,308,000.00	—
—	7,394,225.43	Cr. 2,225.43	—
—	3,809,332.46	1,144,667.54	—
202,478.19	4,926,878.05	27,121.95	—
—	2,642,364.43	Cr. 364.43	—
—	40,179.12	32,820.88	—
Dr. 41,359,681.96 Cr. 502,821.64	829,852,049.34	60,681,950.66	—
3,965,065.29	77,005,523.09	—	494,476.91
Cr. 4,489,118.80	—	Reserve for 1925/6.	4,489,118.80 10,881.20
—	5,550,000.00	—	—
—	3,700,000.00	—	—
—	9,429,887.64	—	570,112.36
—	7,820,739.81	—	179,260.19
—	216,106.33	—	Dr. 106.33
Dr. 45,324,747.25 Cr. 4,991,940.44	933,574,306.21	60,681,950.66	5,743,743.13
—	3,333,333.33	—	—
Dr. 45,324,747.25 Cr. 4,991,940.44	936,907,639.54	60,681,950.66	5,743,743.13
—	—	—	—
—	202,802.16	—	90,779.66
—	—	—	163,999.63
Dr. 45,324,747.25 Cr. 4,991,940.44	937,110,441.70	60,681,950.66	5,998,513.42

Exhibit VII.

Analysis of Payments and Outstanding Liabilities by Category of Delivery.

	Total Payments to August 31, 1925	Outstanding Liabilities at August 31, 1925	Total Payments and Outstanding Liabilities at August 31, 1925
	gold marks	gold marks	gold marks
1. Mark payments to armies of occupation			
France	34,012,474.24	1,964,319.70	35,976,793.94
British Empire	14,625,257.11	—	14,625,257.11
Belgium	3,654,283.64	—	3,654,283.64
	52,292,014.99	1,964,319.70	54,256,334.69
2. Requisitions and damages under Art. 6 of Rhineland Agreement			
France	11,130,000.00	1,549,200.00	12,679,200.00
British Empire	70,000.00	22,800.00	92,800.00
Belgium	700,000.00	228,000.00	928,000.00
	11,900,000.00	1,800,000.00	13,700,000.00
3. Furnishings in kind under Arts. 8–12 of Rhineland Agreement			
France	64,994,640.00	—	64,994,640.00
British Empire	15,460,460.00	—	15,460,460.00
Belgium	12,307,880.00	—	12,307,880.00
	92,762,980.00	—	92,762,980.00
4. Furnishings in the Ruhr			
France	26,454,138.65	—	26,454,138.65
Belgium	4,008,052.67	—	4,008,052.67
	30,462,191.32	—	30,462,191.32
5. Reparation Recovery Acts			
France	25,090,220.95	3,627,191.44	28,717,412.39
British Empire	155,172,144.85	355,757.11	155,527,901.96
	180,262,365.80	3,982,948.55	184,245,314.35
Totals carried forward ...	367,679,552.11	7,747,268.25	375,426,820.36

	Total Payments to August 31, 1925	Outstanding Liabilities at August 31, 1925	Total Payments and Outstanding Liabilities at August 31, 1925
	gold marks	gold marks	gold marks
Totals brought forward ...	367,679,552.11	7,747,268.25	375,426,820.36
6. Deliveries of coal, coke and lignite			
France	136,212,112.85	13,410,979.88	149,623,092,73
Italy	36,301,410.86	2,950,240.48	39,251,651.34
Belgium	44,679,561.91		47,743,769.60
Repayment due for excess tonnage		Dr. 3,567,029.33 Cr. 502,821.64	
	217.193,085.62	Dr. 19,928,249.69 Cr. 502,821.64	236,618,513.67
7. Transport of combustibles			
France	53,161,379.70	6,054,175.67	59,215,555.37
Italy	13,384,875.58	385,637.91	13,770,513.49
Belgium	11,883,312.41	487,067.56	12,370,379.97
	78,429,567.69	6,926,881.14	85,356,448.83
8. Deliveries of dyestuffs and pharmaceutical products			
France	5,163,079.35	—	5,163,079.35
British Empire	4,535,634.78	—	4,535,634.78
Italy	8,954,156.87	66,247.71	9,020,404.58
Belgium	3,749,544.40	73,652.97	3,823,197.37
Serb-Croat-SloveneState	38,402.07	—	38,402.07
Japan	3,809,332.46	—	3,809,332.46
	26,250,149.93	139,900.68	26,390,050.61
9. Deliveries of chemical fertilizers			
France	19,655,862.09	3,325,644.46	22,981,506.55
Belgium	290,619.70	—	290,619.70
	19,946.481.79	3,325,644.46	23,272,126.25
10. Miscellaneous deliveries			
France	20,705,135.50	1,386,226.95	22,091,362.45
Italy	1,733,960.58	—	1,733,960.58
Belgium	12,213,745.34	618,854.49	12,832,599.83
Serb-Croat-SloveneState	30,042,341.62	1,084,178.11	31,126,519.73
Portugal	4,724,399.86	202,478.19	4,926,878.05
Rumania	7,394,225.43	—	7,394,225.43
Greece	2,642,364.43	—	2,642,364.43
Poland	40,179.12	—	40,179,12
	79,496,351.88	3,291,737.74	82,788,089.62
Total in respect of Powers ...	788,995,189.02	Dr. 41,359,681.96 Cr. 502,821.64	829,852,049.34

Exhibit VIII.

Office for Reparation Payments.

Summary of Personnel — September 1, 1925.

Office[1]	Nationality						Total
	American	French	British	Italian	Belgian	Dutch	
The Agent General for Reparation Payments	1	—	—	—	—	—	
Assistants and Staff	4	1	—	—	—	—	6
The Commissioner of the Reichsbank	—	—	—	—	—	1	
Assistants and Staff	—	—	—	—	—	4	5
The Commissioner for the German Railways	—	1	—	—	—	—	
Assistants and Staff	—	4	—	1	1	—	7
The Commissioner of Controlled Revenues	—	—	1	—	—	—	
Assistants and Staff	—	1	2	1	1	—	6
The Trustee for the German Railway Bonds	—	—	—	—	1	—	1
The Trustee for the German Industrial Debentures	—	—	—	1	—	—	
Director of Office and Staff	—	1	—	4	—	—	6
The Transfer Committee	2	1	1	1	1	—	
Economic Advisers	1	1	—	1	1	—	
Other Staff	—	7	—	1	1	—	[2] 18
Legal Adviser and Paris Representative[3]	1	—	—	—	—	—	
Secretary and Staff	2	1	1	—	—	—	5
Administrative Services:							
General Secretary and Staff	—	1	2	1	1	—	5
Chief Accountant and Staff	2	5	9	4	2	—	22
Translators	—	3	7	—	—	—	10
Private Secretaries, Registry and Filing Staff, Clerks, Stenographers, and Typists	2	13	27	1	1	—	44
Total Personnel[2]	14	40	50	16	10	5	135 [2]
Of which the salaries and the costs are chargeable against:							
The Annuity	123						
The Reichsbank	5						
The German Railways	7						135

[1] Berlin Office address: 33 Luisenstrasse.
[2] Total adjusted to avoid duplication within groups.
[3] Paris Office address: 18, rue de Tilsitt.

Note. — The foregoing is exclusive of German minor staff employed for upkeep of building, messenger service, etc.

Exhibit IX.

German External Loan, 1924. — Condition as of October 15, 1925, on Completion of First Loan Year.

Tranche	Nominal value of bonds issued	Nominal value of bonds redeemed during first loan year	Nominal value of bonds outstanding as of October 15, 1925	Cost of bonds redeemed by purchase exclusive of accrued interest	Cost at which bonds would have been redeemed by drawings	Capital saving on redemption by purchase
American	$ 110,000,000	$ 4,825,800	$ 105,174,200	$ 4,627,173.20	$ 5,073,122.25	$ 445,949.05
British	£ 12,000,000	£ 192,500	£ 11,807,500	£ 190,215. 6.1	£ 192,740.12.6	£ 2,525. 6.5
Belgian	£ 1,500,000	£ 25,000	£ 1,475,000	£ 23,772.10.9	£ 25,031. 5	£ 1,258.14.3
Dutch	£ 2,500,000	£ 40,400	£ 2,459,600	£ 39,712. 2.4	£ 40,450.10	£ 738. 7.8
French	£ 3,000,000	£ 49,500	£ 2,950,500	£ 47,545. 6.9	£ 49,561.17.6	£ 2,016.10.9
Italian	Lire 100,000,000	Lire 1,640,000	Lire 98,360,000	Lire 1,583,193.60	Lire 1,642,050	Lire 58,856.40
Swedish	S.Kr. 25,200,000	S. Kr. 398,000	S. Kr. 24,802,000	—	—	—
Swiss	£ 2,360,000	£ 38,300	£ 2,321,700	£ 37,410.17.1	£ 38,347.17.6	£ 937. 0.5
Swiss	S. Frs. 15,000,000	S. Frs. 239,000	S. Frs. 14,761,000	S. Frs. 237,737.95	S. Frs. 239,298.75	S. Frs. 1,560.80
German	£ 360,000	£ 5,700	£ 354,300	£ 5,610.16.1	£ 5,700	£ 89. 3.11

Exhibit IX.

German External Loan, 1924. Condition as of October 15, 1925, on Completion of First Loan Year.

Transfer	Nominal value of bonds issued	Nominal value of bonds redeemed during first loan year	Nominal value of bonds outstanding as of October 15, 1925	Cost of bonds redeemed by purchase or retirement at date of October 15, 1925	Cost of bonds outstanding by deduction	Capital saving on redemption by purchase
Argentine	£ 11,000,000	£ 1,837,500	£ 10,612,500	£ 1,837,125.00	£ 9,075,125.00	£ 445,500.00
British	£ 12,000,000	105,000	£ 11,895,000	£ 100,324. 6.1	£ 105,749.13.6	£ 4,675. 6.6
Belgian	£ 5,000,000	£ 25,000	£ 4,975,000	£ 24,977.10.0	£ 25,021. 5	£ 1,250. 1.8
Dutch	£ 3,500,000	£ 40,000	£ 3,460,000	£ 37,715. 2.4	£ 40,436.16	£ 750. 7.8
Swiss	£ 2,000,000	£ 40,000	£ 1,960,000	£ 37,844. 0.8	£ 40,581.17.6	£ 2,000.10.0
Italian	Lire 100,000,000	Lire 1,040,000	Lire 98,960,000	Lire 1,036,158.80	Lire 1,042,050	Lire 58,850.40
Swedish	Kr. 25,000,000	Kr. 500,000	Kr. 24,500,000			
Swiss	£ 7,000,000	£ 500,000	£ 6,500,000	£ 87,410.17.1	£ 88,347.17.6	£ 937. 0.6
Swiss	Frs. 15,000,000	Frs. 300,000	Frs. 14,700,000	Frs. 237,237.50	Frs. 239,288.75	Frs. 1,950.50
German	£ 20,000,000	£ 200,000	£ 19,800,000	£ 194,000	£ 200,000	£ 6,000

INDEX

TO THE

REPORT

OF THE

AGENT GENERAL

FOR

REPARATION PAYMENTS

November 30, 1925

BERLIN

9808. 35. Bk2

INDEX

TO THE

REPORT

OF THE

AGENT GENERAL

FOR

REPARATION PAYMENTS

November 30, 1925

BERLIN

INDEX

TO THE

REPORT

OF THE

AGENT GENERAL

FOR

REPARATION PAYMENTS

November 30, 1925

BERLIN

Index

Page

Agriculture, crop of 1925 90
Annuity:
- Administration of 7
- Arrangements for second 8
- Composition of (diagram) 105
- Constitution of 7
- Distribution of 10, 11, 106, 107, 112, 113
- Management of 15
- Payment of first 8
- Provisions of the Plan for 7
- Use of by Creditor Powers 12

Arbitration:
- Board of 17
- Questions which have arisen for 18

Armies of Occupation, payments and expenses 10, 12, 13
Assets of Agent General, August 31, 1925 108
Assigned Revenues: (see Controlled Revenues)
Audit of Accounts 11
Baden, budget of 41
Balance Sheet of Agent General, August 31, 1925 108–109
Bank Clearings, volume of 91, 92
Bank Loans:
- Rates on 69
- To the Reich 44

Bank Notes, amount in circulation 51
Bank of England, account of Agent General 27
Banque de France, account of Agent General 27
Bavaria:
- Budget of 41
- Foreign loan 47

Belgian War Debt, allotments for 11
Belgium:
- Amount allocated from first annuity 12, 112
- Analysis of payments to 114–115
- Funds allocated and uncovered by payments 109
- Payments from first annuity 111, 112
- Receipts of deliveries in kind 24
- Share of first annuity 106
- Share of second annuity 107
- Use of first annuity 13
- Utilisation of credits by means of deliveries in kind 26

Bemelmans-Cuntze Agreement, regarding deliveries in kind 22
Berlin, foreign loan 48
Berliner Städtische Elektrizitätswerke A. G., foreign loan 49
Bourse:
- Rates for money 69
- Trading 71

Page

Bremen, foreign loan 47
British Empire:
Amount allocated from first annuity 12, 112
Analysis of payments to 114–115
Funds allocated and uncovered by payments 109
Payments from first annuity 111, 112
Receipts of deliveries in kind 24
Share of first annuity 106
Share of second annuity 107
Use of first annuity 13
Budgets: (see also German Budget)
States and Communes 40
Business and Industry: (see German Business and Industry)
Circulation: (see also Currency)
Growth of 52
Clearings: (see Bank Clearings)
Coal:
Deliveries to creditor countries 88
Production of 87
Coins: (see German Coins)
Coke, production of 87
Cologne, foreign loan 48
Commercial Failures, number of 97
Commercial Treaties, new treaties negotiated 74
Commissioner for the German Railways, report of 28
Commissioner of Controlled Revenues, report of 30
Commissioner of the Reichsbank, report of 28
Commissioners and Trustees, work of 28
Commodity Prices:
Retail prices in Germany 100
Wholesale prices in Germany 98
Communal Banks, functions of 59
Communes: (see States and Communes)
Controlled Revenues:
Change in rates 30
Provision for withholding 9
Receipts from 30, 33, 93
Report of Commissioner of 30
Control Protocol, control of assigned revenues 30
Co-operative Stores, average weekly purchases (diagram) 93
Cost of Living, changes in 100
Credit:
Conditions in Germany 55
Foreign credits 56
Public banks and credit 57
Relation of Reichsbank to credit conditions 64
Volume of 65
Creditor Powers, utilisation of credits by means of deliveries in kind ... 26
Currency:
Amount and kinds in circulation 51
Stability of 50

Page
Currency and Credit: (see German currency and credit)
Deliveries and Payments, programmes of 15
Deliveries in Kind:
Administration of under Experts' Plan 25
Categories of 23, 114–115
Distribution of 24
Payments for 10, 12, 13, 14
Progress of 23
Regulation of 20, 21
Status of deliveries under Experts' Plan 22
Various prior agreements involving 22
Wallenberg Regulations 25
Deutsche Girozentrale, functions of 59
Deutsche Werke, banking connections of 58
Devisen, holdings of Reichsbank 54
Diagrams:
Commodity prices 98
Composition of annuity 105
Currency in circulation 53
German foreign trade 76, 83
German wholesale prices and cost of living 100
Iron and steel production in Germany 90
Money rates 70
Purchases at Co-operative Stores 93
Receipts from controlled revenues 93
Reichsbank weekly clearings 92
Security prices 70
Unemployment 95
Düsseldorf, foreign loan 48
Economy, necessity for 38
Elektrowerke A. G., foreign loan 49
Employment 96
Expenditures:
Actual expenditures of Reich for 1924—1925 33
Estimated expenditures of Reich for 1925—26 36
Tendency of public expenditures 38
Experts' Plan:
Annuity provisions 7, 8
Basis for management of annuity 15
Change regarding deliveries in kind 22
First year of operation summarized 6
Objects realised during first year 102
Status of deliveries in kind under 22
Experts' Report, relations between States and Communes and the Reich 39
European Commission of the Danube, payments from first annuity 11, 111, 112
Failures: (see Commercial Failures)
Federal Reserve Bank of New York, account of Agent General 27
Finance Ministers' Agreement:
Distribution of annuities 10
Regulation of deliveries and payments 16

Page

Finance Ministry of the Reich:
Loans of public funds 60
Policy for handling public funds 63
Foreign Credits, public and private 56
Foreign Currencies, accounts in 27
Foreign Loans:
Effect on trade balance 73
Loans to industry and agriculture 56-57
Municipal and Communal 48
Public and semi-public undertakings 49
States 47
Foreign Trade: (see German Foreign Trade)
France:
Amount allocated from first annuity 12, 112
Analysis of payments to 114-115
Funds allocated and uncovered by payments 109
Payments from first annuity 111, 112
Receipts of deliveries in kind 24
Share of first annuity 106
Share of second annuity 107
Use of first annuity 12
Utilisation of credits by means of deliveries in kind 26
German Budget:
Arrangements for annuity payments 9
Burden of first annuity 6, 35
Contribution to annuity 7
For fiscal year 1924—1925 32
For fiscal year 1925—1926 36
General observations on 37
German Business and Industry:
Business activity 91
Readjustment of 85
Reorganisation of industry 86
German Coins, amount in circulation 51
German Currency and Credit 50
German Economy:
Burden of first year on 6, 7
First year as a test of 7
German External Loan:
Amount outstanding 44
Arrangements for flotation 6
Condition as of October 15, 1925 117
Definitive bonds issued 19
Effect on trade balance 73
Payments for service of 7, 9, 11, 19, 111, 112
Proceeds for financing internal payments 10
Proceeds for first annuity 6, 7, 8
Provision for 43
Purchases of foreign currencies for service of 21
Receipts from 110

Page

German Foreign Trade:
Details of imports and exports ... 75
Direction of ... 81-83
Trade balance ... 71, 73, 83, 84

German Government: (see Germany; also Reich)

German Public Debt: (see also Reich)
Reich and States and Communes ... 42

German Railway Bonds:
Not offered to the public ... 30
Report of Trustee ... 30
Resolution of Transfer Committee ... 31

German Railway Company:
Arrangements for interest payments ... 8
Banking arrangements ... 60
Collection of transport tax ... 10
Contribution to annuity ... 6, 7, 8, 9
Issuance to Reich of preference shares ... 29
Re-organised ... 6
Report on, by Commissioner ... 28
Settlement for services rendered by ... 17

German Reconstruction, influence of Experts' Plan ... 102

Germany: (see also Reich)
Arrangements for annuity payments ... 9
Co-operation with the Transfer Committee ... 20
Fiscal and economic unity restored ... 6
Liability to Allied and Associated Powers ... 15
Payments by, in first and second years ... 7
Transfers by Germany raising questions for arbitration ... 18

Gillet-Ruppel Agreement, regarding deliveries in kind ... 22

Girozentralen, functions of ... 59

Government Loans and Investments, special credits and loans to industry and agriculture ... 40

Greece:
Amount allocated from first annuity ... 12, 112
Analysis of payments to ... 114-115
Funds allocated and uncovered by payments ... 109
Payments from first annuity ... 111, 112
Receipts of deliveries in kind ... 24
Share of first annuity ... 106
Share of second annuity ... 107
Use of first annuity ... 14

Hamburg Emergency Currency, amount in circulation ... 51

Hamburgische Elektrizitätswerke A. G., foreign loan ... 49

Heidelberg, foreign loan ... 48

Hesse Municipal Group, foreign loan ... 48

Industrial Debentures:
Arrangements for interest payments ... 8, 9
Report of Trustee ... 31
Value of business capital subject to charge of ... 31

Inflation, effects on credit and industry ... 55

Page
Interallied Commissions, payments from first annuity 11, 111, 112
Interallied Military and Naval Commissions of Control, payments from first annuity 11, 111, 112
Insurance Office of the Reich, loans of public funds 60
Interest Rates, changes 69
Interim Report, period covered 5
Iron, production of 89
Italy:
Amount allocated from first annuity 12, 112
Analysis of payments to 114–115
Funds allocated and uncovered by payments 109
Payments from first annuity 111, 112
Receipts of deliveries in kind 24
Share of first annuity 106
Share of second annuity 107
Use of first annuity 13
Japan:
Amount allocated from first annuity 12, 112
Analysis of payments to 114–115
Funds allocated and uncovered by payments 109
Payments from first annuity 111, 112
Receipts of deliveries in kind 24
Share of first annuity 106
Share of second annuity 107
Use of first annuity 14
Liabilities of Agent General, August 31, 1925 109
Lignite, production of 87
Loans: (see also German External Loan and Foreign Loans)
Public funds 60
Revaluation of paper mark loans 45
London Agreement: (see also London Protocol)
Compliance with provisions 6
Provisions for second annuity 8
Regarding deliveries in kind 22, 25
London Protocol, increase in number of arbitrators 17
Micum Agreements, deliveries in kind under 22
Mixed Claims Commission, awards of 11
Money and Security Markets 69
Munich, foreign loan 48
Office for Reparation Payments:
Charge on first annuity 11
Summary of personnel 116
Oldenburg, foreign loan 47
Organisation:
For administration of Experts' Plan 17
Expenses of 17
Payments: (see also Annuity)
Analysis of reparation payments 114–115
Payment of first annuity 8
Statement of payments by Agent General 111

Page

Peace Treaty, payments for the execution of 35

Poland:
- Amount allocated from first annuity 12, 112
- Analysis of payments to 114–115
- Funds allocated and uncovered by payments 109
- Payments from first annuity 111, 112
- Receipts of deliveries in kind 24
- Share of first annuity 106
- Share of second annuity 107
- Use of first annuity 14

Portugal:
- Amount allocated from first annuity 12, 112
- Analysis of payments to 114–115
- Funds allocated and uncovered by payments 109
- Payments from first annuity 111, 112
- Receipts of deliveries in kind 24
- Share of first annuity 106
- Share of second annuity 107
- Use of first annuity 14

Postal Administration:
- Loans of public funds 60
- Re-organisation of system of deposits 62

Potash, production of 90

Preußenkasse, function of 59

Prices: (see Commodity Prices, also Security Prices)

Private Banks, strength of 69

Production, physical volume 87

Provisional Items, settlement of 16

Prussia, budget of 41

Prussian Minister of Finance, bank supervision by 59

Prussian State Bank:
- Functions of 57
- Relation to credit situation 59
- Relations with Reichsbank 63

Public Banks:
- Relation to credit situation 57
- Volume of credit 65

Public Debt: (see also German Public Debt)
- States and Communes 46

Public Funds:
- Loans of 60
- Nature of 60

Railway Company: (see German Railway Company)

Railway Reparation Bonds, receipts from 110

Receipts:
- Actual receipts of the Reich for 1924—1925 ..... 32, 33
- Estimated receipts of the Reich for 1925—1926 36

Receipts and Payments by the Agent General, for the first annuity year 110–111

Page

Reich: (see also Germany)
Amount of revalorised debt 46
Budget for 1924—1925 32
Budget for 1925—1926 36
Payments to the States and Communes 35, 39
Public Debt of 42
Revaluation of paper mark loans 45

Reichsbahn: (see German Railway Company)

Reichsbank:
Account of Agent General 8
Change in bank rate 69
Co-operation with the Transfer Committee 20
Credit policy 64
Independence of 57
Investment of advance annuity payments 9
Leadership in credit matters 62
Obligations of the Reich to 43, 44
Purchases of foreign currencies through 21
Reconstituted 6
Report on, by Commissioner 28
Reserves 54
Weekly clearings 92

Reichsbank Notes, amount in circulation 51, 52

Reichs-Kredit-Gesellschaft:
Functions 57
Relations with Reichsbank 63

Rentenbank:
Agricultural bills 65
Character of its notes 51, 52
Circulation 52
Obligations of the Reich to 43, 44

Rentenbank-Kredit-Anstalt:
Foreign loan 49
Functions 58

Reparation Commission:
Approval of payment arrangements 9
Charge on first annuity 11

Reparation Recovery Acts:
Collections under 27
Payments under 10
Receipts by France under operation of 12
Receipts by Great Britain under operation of 13
Regulation of payments by Transfer Committee 20

Reserves, Reichsbank 54

Retail Trade, volume of 92, 93

Rheinisch-Westfälisches Elektrizitätswerk A. G., foreign loan 49

Rhein-Main-Donau A. G., foreign loan 49

Rhineland Agreement, settlement for requisitions and damages under Article VI 16

Rhineland High Commission, charge on first annuity 11

Page

Roumania:
- Amount allocated from first annuity ... 12, 113
- Analysis of payments to ... 114–115
- Funds allocated and uncovered by payments ... 109
- Payments from first annuity ... 111, 112
- Receipts of deliveries in kind ... 24
- Share of first annuity ... 106
- Share of second annuity ... 107
- Use of first annuity ... 14

Ruhr:
- Evacuated ... 6
- Settlement for further claims, responsibilities and damages in ... 17

Sächsische Werke, foreign loan ... 49

Sanction Towns, evacuated ... 6

Savings Banks:
- Deposits of ... 66, 67
- Functions and Relations to credit situation ... 59

Sátoraljaújhely, budget of ... 41

Security Prices, trend of ... 70

Seehandlung: (see Prussian State Bank)

Serb-Croat-Slovene State:
- Amount allocated from first annuity ... 12, 113
- Analysis of payments to ... 114–115
- Funds allocated and uncovered by payments ... 109
- Payments from first annuity ... 111, 112
- Receipts of deliveries in kind ... 24
- Share of first annuity ... 106
- Share of second annuity ... 107
- Use of first annuity ... 14

Sparkassen: (see Savings Banks)

State Banks, relation to credit situation ... 58

States and Communes:
- Budgets of ... 40
- Loans of public funds ... 61
- Public debt of ... 42, 46
- Receipts from the Reich ... 35, 39

Steel, production of ... 89

Tariff:
- Changes ... 75
- Effect on trade balance ... 75

Taxes:
- Payment of Transport Tax ... 9, 10
- Receipts from Turnover Tax ... 91, 92

Trade Balance: (see German Foreign Trade)

Transfer Committee:
- Attitude towards public offering of German Railway Bonds ... 31
- Composition and function ... 20
- Position regarding deliveries and payments ... 16

Transfers:
- During first year ... 20
- Into foreign currencies ... 21

Page
Transport, volume of traffic of German Railways 98
Transport Tax:
Arrangements for annuity payments 9
Payments in 1925 10
Treasury Bills: (see Treasury Bonds and Bills)
Treasury Bonds and Bills, amounts outstanding 44
Treaty of Versailles:
Special payments under 15
Transfers under Treaty raising questions for arbitration 18
Turnover Tax, receipts from 91, 92
Trustee for the German Industrial Debentures, report of 81
Trustee for the German Railway Bonds, report of 89
Unemployment, changes in 95
United States of America:
Allotments for costs of army of occupation 11
Amount allocated from first annuity 12, 112
Analysis of payments to 114–115
Funds allocated and uncovered by payments 109
Payments from first annuity 111, 113
Share of first annuity 106
Share of second annuity 107
Use of first annuity 12
Vereinigte Industrie-Unternehmungen A. G., nature of 57
Verkehrs-Kredit-Bank:
Deposit of railway company funds 89
Functions 58
Wallenberg Regulations:
Adoption of 23
Contracts under 25
Wiesbaden Agreement, regarding deliveries in kind 32
Württemberg Municipal Group, foreign loan 48